THE FREEMAN

IDEAS ON LIBERTY

Hayek Was Right: The Worst Do Get to the Top

Regulatory Poison

Reading the Second Amendment

Taxpayers at Risk

FEBRUARY 1998

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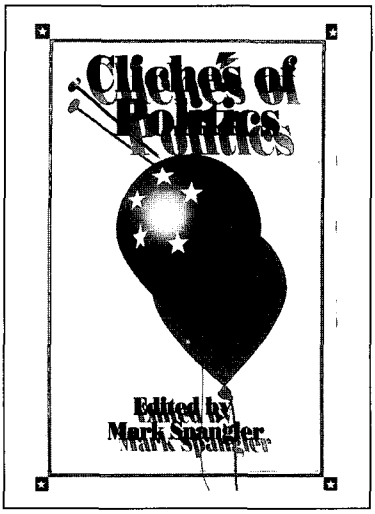

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IDEAS ON LIBERTY

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Cover photo of F. A. Hayek: © Matthew Richard.

PERSPECTIVE

Freedom 101

Where is someone likely to come into first contact with the freedom philosophy? In school? Considering that almost 90 percent of American children attend schools run by the government, that's not likely. There may be exceptions, but how often will a teacher in a coercive institution tell his charges that each individual should be free to determine his own life's course? Schools are too busy hammering home the lesson that government saves us from the otherwise chaotic and environmentally destructive marketplace. It would be slightly discordant to add, "And by the way, freedom is both moral and practical."

Since we can't look to most schools, we have to put our trust in other methods. The news media carry stories of government ineptitude, but we can't count on everyone drawing the right conclusion, namely, that government power is the problem. It's too easy to think that a change of personnel will fix things. Besides, by the time young people are paying close attention to news accounts about government, their political views may already be set.

I don't have a definitive answer to my question. But I do have a suggestion. *The Freeman* aims to be accessible to readers who know little about how the free economy works. That makes it right for college and high school students, and even younger children who show an interest in public affairs. Look around you and see who would most benefit from these monthly articles on the market process, unplanned order, individual rights, and the dangers of statism. You could be the one who introduces a young person to a lifetime appreciation of freedom.

* * *

In the wake of the big recall of hamburger meat last year, the Clinton administration has sought new power to regulate the food industry. Yet Thomas DiLorenzo and James Bennett explain that what is needed is not more power but less. The Food and Drug Administration, spurred by some environmental groups, until recently prevented the beef industry from

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killing deadly bacteria, such as E. coli, with a safe and established procedure. See the excerpt from their forthcoming book, *The Food and Drink Police: America's Nannies, Busybodies, and Petty Tyrants*.

We continue our commemoration of the 100th anniversary of the birth of FEE founder Leonard E. Read with a 1956 *Freeman* article in which he explains that the freedom philosophy is neither left nor right. As Read writes, "Liberty has no horizontal relationship to authoritarianism." This is a point worth revisiting.

The U.S. Information Agency puts on programs for top students and professors. What does it tell them about the role of government? Tom G. Palmer describes a recent event. It wasn't pretty.

We are pleased to publish the first- and second-prize-winning essays in the 1997 Olive W. Garvey Fellowship program, sponsored by the Independent Institute in Oakland, California. The topic for the competition was F. A. Hayek's statement, "Private property is the most important guaranty of freedom." David Upham, a doctoral candidate in politics at the University of Dallas, wrote the top-winning entry, "The Primacy of Property Rights and the American Founding"; Jason Baldwin, a senior at Wheaton College in Illinois, placed second with "Property and the Moral Life." Both will interest *Freeman* readers.

Political reformers are always going on about the evils of money and the need for campaign finance reform. John Wenders, noticing that the scope of government power is rarely acknowledged, brings some clear thinking to the issue.

Adherents to the freedom philosophy think it is no coincidence that economic growth correlates with economic freedom. Randall Holcombe explores this connection and presents some empirical evidence that fits the theory like a glove.

Is the regulatory state merely socialism by other, subtler means? Ralph Reiland looks at this question and comes up with a disquieting answer. If the era of big government is over, we must have entered the era of lots of little government.

Smoking is a major target of public policy these days. Yet, writes Andrew Cohen, we could better handle the potential conflicts involved if the rules of private property were allowed to take precedence over government regulation. Ownership can solve the apparently insoluble.

Russell Madden thinks it's ironic that the government is called on to protect the environment. It's not just that government officials act under perverse incentives. More than that, the state itself, through its subsidies and regulations, is the great despoiler of the environment. This is truly a case of the predator watching the endangered species.

Taxation is not the only way that government "taxes" its citizens. In fact, almost anything government does is in reality a tax. Max Schulz explains.

Natural law has had a controversial history. Wendy McElroy identifies three positions taken on natural law during the long debate: it is correct, it is incorrect, or it is absurd. Then she sets two objectives—to show that natural law is coherent and to show that civility in intellectual discourse pays dividends.

When people ask how bad government schooling is, I point out that there is a strong correlation between the amount of education the intellectual class has and its inability to understand the words "the right of the people to keep and bear arms shall not be infringed." But seriously, it's amazing the lengths people will go to deny the meaning of clear English. My article on the Second Amendment makes the case that the plainest reading supports the individual right to own firearms.

Our columnists once again have come up with provocative topics this month: Doug Bandow on foreign bailouts . . . Larry Reed on why the worst get on top . . . and Mark Skousen on Austrian economics. Of course, a lively book review section finishes off the issue.

—SHELDON RICHMAN

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THE FREEMAN
IDEAS ON LIBERTY

Regulatory Poison

by James T. Bennett and Thomas J. DiLorenzo

Last summer the meat-processing company Hudson Foods recalled 25 million pounds of hamburger after several people suffered from E. coli poisoning apparently caused by meat produced at its plant in Nebraska. As many as 500 Americans die each year from E. coli infection, and tens of thousands more are taken ill by the ingestion of the bacteria, which is found in the intestines of cows.

All this illness and death is completely preventable, however, through food irradiation. The problem is that political pressure groups such as the Washington, D.C.-based Center for Science in the Public Interest (CSPI) and Food and Water, Inc., have waged effective propaganda campaigns against food irradiation. Anti-irradiation propaganda has been so effective that it has intimidated most grocers in the country, who refuse to sell irradiated food despite the well-known fact that the process would essentially render E. coli poisoning a thing of the past.

The Food and Drug Administration (FDA) had approved the irradiation of many foods, but not, until last December, red meat. Such "protection" at the hands of self-promoting "consumer protection" groups and government regulators is indeed hazardous to health.

James Bennett and Thomas DiLorenzo are professors of economics at George Mason University in Virginia and Loyola College in Maryland, respectively. This article is adapted from their forthcoming book, The Food and Drink Police: America's Nannies, Busybodies, and Petty Tyrants.

What Is Irradiation?

Food irradiation involves a modest dose of gamma rays, machine-generated electrons, or X-rays. The energy passes through the food, leaving no residue or aftertaste, and destroys bacteria, molds, yeasts, and insects. Numerous studies have shown that it eliminates more than 99 percent of such bacteria and parasites as salmonella, E. coli, listeria, campylobacter, and trichinella, organisms the Centers for Disease Control says are responsible for 10,000 deaths annually in the United States.

Even before its belated approval of irradiation for red meat, the FDA advocated it for other foods: "If poultry irradiation were widely used in this country," says the agency's Douglas Archer, "I believe it could prevent hundreds of thousands of illnesses and hundreds of deaths each year."[1] The American Gastroenterological Association Foundation recently stated that the elimination of E. coli is "currently impossible" without irradiation.[2]

The widespread use of irradiation would also make some foods cheaper. "By stocking irradiated produce, I can reduce my retail price because there is less spoilage," says Jim Corrigan, owner of Carrot Top, a grocery store in Illinois that is one of the first in the Midwest to stock irradiated food.[3] This practice would put millions (if not billions) of dollars annually back into the pockets of consumers if it were to become widespread nationally (and internationally).

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In essence, irradiation does to solid foods what pasteurization does to liquids. The U.S. government has approved irradiation of poultry, fruits, vegetables, pork, flour, and spices. But the FDA dragged its feet on red meat and must therefore share some of the responsibility for the recent illnesses and deaths caused by E. coli-tainted meat. Moreover, its "endorsement" of irradiation for such foods as poultry is tainted by the fact that it requires packages of poultry to contain the "radura," the creepy-looking green international symbol for radiation, along with the statement, "Treated with Radiation." This is enough to scare consumers away despite the FDA's official endorsement of irradiation.

Dangerous Protectors

The big problem, however, is that the self-appointed national nannies at CSPI, Food and Water, Inc., and elsewhere, have an irrational fear of anything associated with the word "radiation," and they have found that they can raise large amounts of money from a gullible public by promising to "protect" it from "radiation" in its food supply. A gullible and scientifically uninformed media allow the group to get away with an endless stream of unsubstantiated propaganda.

The questionable nature of the public-information campaigns of the anti-irradiation pressure groups was on display in a January 27, 1993, ABC News "20/20" segment hosted by John Stossel. Stossel showed up at Food and Water, Inc.'s public protest of the opening of the nation's first commercial food-irradiation plant in Mulberry, Florida, and interviewed organization spokesman Michael Colby. "If you look at the existing studies on humans and animals fed irradiated food," Colby soberly stated on camera, "you will find testicular tumors, chromosomal abnormalities, kidney damage, and cancer and birth defects." Such statements by an authoritative-sounding spokesman for a "consumer" group are enough to turn anyone against irradiation. The problem, Stossel discovered, was that the author of the study that Colby referred to "never said the kids [in the study] were developing cancer."

Food and Water, Inc., was caught in a lie on national television. Its radio ads are also highly questionable. One of them claimed that "many scientists are saying irradiation makes food unsafe," and that "new studies" supposedly show that "ingesting radiation exposed foods causes genetic damage, which can lead to cancer, and birth defects."[4] But the designer of the ad, self-described "guerrilla media guru" Tony Schwartz, who also ran Lyndon Johnson's media campaign during the 1964 presidential election, told the *Wall Street Journal* that "I'm retracting my support for the ad" because it was factually incorrect.[5] On the "20/20" segment, Schwartz told John Stossel that Food and Water, Inc., had behaved in a "sleazy" manner.

No Substitute

The "consumer activists" at Food and Water, Inc., and at CSPI have urged the federal government to employ thousands of additional meat inspectors instead of permitting a more widespread use of irradiation. But such a regulatory onslaught is bound to be completely unproductive. Professor James Steele of the University of Texas School of Public Health has written that E. coli "is not known to cause any diseases with clinical signs in cattle. Cattle are passive carriers of this virulent form of colon bacteria and there is no way the Federal inspectors can identify a carrier animal by physical examination."[6]

Allan Forbes, the former director of the FDA's Office of Nutrition and Food Sciences, hit the nail on the head when he said of Food and Water, Inc., CSPI, and other so-called consumer organizations that "they've lost sight of what the public interest is. Food irradiation is safe beyond the slightest question. It's a sad commentary, but it's clear to me that these groups make their living by creating fear about issues like this."[7]

For three years, this fear-mongering was apparently enough to encourage the FDA to delay its regulatory approval of irradiation for red meat. The FDA literally killed American citizens by denying them the right to decide for themselves whether they wanted irradiat-

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ed food. FDA regulation was infinitely more hazardous to health than food irradiation could ever conceivably be. □

1. American Spice Trade Association, "What Consumers Really Think About Irradiated Foods," (Englewood Cliffs, N.J.: ASTA, 1995), p. 3.
2. World Health Organization, "Safety and Nutritional Adequacy of Irradiated Food" (Washington, D.C.: WHO, May 27, 1992), p. 52.
3. Nation's Pride, "Increase Sales with Fresh Irradiated Produce" (Plant City, Fla.: Nation's Pride, 1994).
4. "Radiation Exposed Food," Test of National Radio Advertisement by Food and Water, Inc., 1990.
5. Bruce Ingersoll, "Schwartz Disavows Ad Denouncing Food Irradiation" (Kanata, Ont., Canada: Nordion International, July 1996).
6. Quoted in John Berlau, "Irradiation, Not More Regulation, for Greater Food Safety," Consumer Alert Issue Brief (Washington, D.C.: Consumer Alert, 1996).
7. Larry Katzenstein, "Good Food You Can't Get," *Reader's Digest*, July 1993, p. 47.

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Neither Left Nor Right

by Leonard E. Read

"Why, you are neither left nor right!" This observation, following a speech of mine, showed rare discernment. It was rare because I have seldom heard it made. It was discerning because it was accurate.

Most of us seem always to be reaching for word simplifications—handy generalizations—for they often aid speech. They take the place of long, drawn-out definitions. Yet, care must be exercised lest these word-shorties play semantic tricks and do a disservice to those who use them. Such, I fear, is the case with "left" and "right" when used by libertarians who, I hope to demonstrate, are neither left nor right in the accepted parlance of our day.

"Left" and "right" are each descriptive of authoritarian positions. Liberty has no horizontal relationship to authoritarianism. Libertarianism's relationship to authoritarianism is vertical; it is up from the muck of men enslaving man. But, let's begin at the beginning.

There was a time when "left" and "right" were appropriate and not inaccurate designations of ideological differences. "The first Leftists were a group of newly elected representatives to the National Constituent Assembly at the beginning of the French Revolution in 1789. They were labeled 'Leftists' merely because they happened to sit on the left side in the French Assembly.

"The legislators who sat on the right side were referred to as the Party of the Right, or Rightists. The Rightists or 'reactionaries' stood for a highly centralized national government, special laws and privileges for unions and various other groups and classes, government economic monopolies in various necessities of life, and a continuation of government controls over prices, production, and distribution."[1]

The leftists were, for all practical purposes, ideologically similar to those of us who call ourselves "libertarians." The rightists were ideological opposites: statists, interventionists, in short, authoritarians. "Left" and "right" in France, during 1789–90, had a semantic handiness and a high degree of accuracy.

But "leftist" was soon expropriated by the authoritarian Jacobins and came to have an opposite meaning. "Leftist" became descriptive of egalitarians and was associated with Marxian socialism: communism, socialism, Fabianism.

What, then, of "rightist"? Where did it fit in this semantic reversal of "leftist"? The staff of the Moscow apparatus has taken care of that for us, and to their advantage: Anything not communist or socialist they decreed and propagandized as "fascist." This is by way of saying that any ideology that is not communist (left) is now popularly established as fascist (right).

Leonard E. Read established FEE in 1946 and served as its president until his death in 1983. This article, excerpted from the January 1956 issue of The Freeman, *is the second in a monthly series commemorating the 100th anniversary of Mr. Read's birth.*

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The libertarian can have no truck with "left" or "right" because he regrets any form of authoritarianism—the use of police force to control the creative life of man.

Let's take a look at Webster's definition of fascism: "Any program for setting up a centralized autocratic national regime with severely nationalistic policies, exercising regimentation of industry, commerce, and finance, rigid censorship, and forcible suppression of opposition."

What, actually, is the difference between communism and fascism? Both are forms of statism, authoritarianism. The only difference between Stalin's communism and Mussolini's fascism is an insignificant detail in organizational structure. But one is "left" and the other is "right"!

Where does this leave the libertarian in a world of Moscow word-making? The libertarian is, in reality, the opposite of the communist. Yet, if the libertarian employs the terms "left" and "right," he is falling into the semantic trap of being a "rightist" (fascist) by virtue of not being a "leftist" (communist). This is a semantic graveyard for libertarians, a word device that excludes their existence. While those with Moscow relations will continue this theme, there is every reason why libertarians should avoid it.

One important disadvantage of a libertarian's use of the left-right terminology is the wide-open opportunity for applying the golden-mean theory. For some twenty centuries Western man has come to accept the Aristotelian theory that the sensible position is between any two extremes, known politically today as the "middle-of-the-road" position. Now, if libertarians use the terms "left" and "right," they announce themselves to be extreme right by virtue of being extremely distant in their beliefs from communism. But "right" has been successfully identified with fascism. Therefore, more and more persons are led to believe that the sound position is somewhere between communism and fascism, both spelling authoritarianism.

The golden-mean theory cannot properly be applied indiscriminately. For instance, it is sound enough when deciding between no food at all on the one hand or gluttony on the other hand. But it is patently unsound when deciding between stealing nothing or stealing $1,000. The golden mean would commend stealing $500. Thus, the golden mean has no more soundness when applied to communism and fascism (two names for the same thing) than it does to two amounts in theft.

The libertarian can have no truck with "left" or "right" because he regrets any form of authoritarianism—the use of police force to control the creative life of man. To him, communism, fascism, nazism, Fabianism, the welfare state—all egalitarianism—fit the definitive description that Plato, perhaps cynically, gave us centuries before any of these coercive systems were evolved:

> The greatest principle of all is that nobody, whether male or female, should be without a leader. Nor should the mind of anybody be habituated to letting him do anything at all on his own initiative; neither out of zeal, nor even playfully. But in war as well as in the midst of peace—to his leader he shall direct his eye and follow him faithfully. And even in the smallest matter he should stand under leadership. For example, he should get up, or move, or wash, or take his meals . . . only if he has been told to do so. . . . In a word, he should teach his soul, by long habit, never to dream of acting independently, and, in fact, to become utterly incapable of it.

Libertarians reject this principle and in so doing are not to the right or left of authoritarians. They, as the human spirit they would free, ascend—are above—this degradation.

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Their position, if directional analogies are to be used, is *up*—in the sense that vapor from a muck-heap rises to a wholesome atmosphere. If the idea of extremity is to be applied to a libertarian, let it be based on how extremely well he has shed himself of authoritarian beliefs.

Establish this concept of emerging, of freeing—which is the meaning of libertarianism—and the golden-mean or "middle-of-the-road" theory becomes inapplicable. For there can be no halfway position between zero and infinity. It is absurd to suggest that there can be.

What simplified term should libertarians employ to distinguish themselves from the Moscow brand of "leftists" and "rightists"? I have not invented one but until I do I shall content myself by saying, "I am a libertarian," standing ready to explain the definition to anyone who seeks meaning instead of trademarks. □

1. Dean Russell, *The First Leftist* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1951), p. 3.

ANYTHING THAT'S PEACEFUL

The Case for the Free Market by Leonard E. Read

Anything That's Peaceful, written in 1964 and often hailed as Leonard Read's best book, is the fruit of years of experience in lecturing and writing on the free market and related institutions.

"By my title, 'Anything That's Peaceful,'" Mr. Read explains, "I mean let anyone do anything he pleases that's peaceful or creative; let there be no organized restraint against anything but fraud, violence, misrepresentation, predation; let anyone deliver mail or educate or preach his religion or whatever, so long as it's peaceful." Intriguing chapter titles, such as "Only God Can Make a Tree—or a Pencil," "The Most Important Discovery in Economics," and "The Greatest Computer on Earth," invite the reader to accompany Leonard Read on his exploration of the wonders of freedom.

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The U.S. (Dis)Information Agency

by Tom G. Palmer

Being the skunk at the garden party is generally not very pleasant. And biting the hand that invites you can seem ungrateful. But when the organizer of the party is funded by the taxpayers and is both lobbying for more money and actively promoting an agenda of ever bigger government, risking not being invited back is the least a defender of constitutional government can do. I imagine that calling for the abolition of the host organization—or even cutting its budget—should serve to guarantee that I am not invited in the future.

I recently accepted invitations to discuss "civil society" before two audiences of Fulbright Scholars at separate events sponsored by the United States Information Agency (USIA). The view of American political life presented was, to say the least, highly unrepresentative of how most Americans view the matter. For example, the debate on welfare reform presented views all the way from the Clinton administration to the welfarist Children's Defense Fund to the statist Center for Law and Social Policy. (There was a token budget analyst from the state of Maryland to discuss the financial impact on the states, but as he pointed out to me, there was no one there to defend actually reforming or cutting back on the welfare system, much less abolishing it altogether.)

The discussion on foreign aid had an equally wide range of views, all the way from the World Bank to the National Democratic Institute to the USIA itself. The panel on "Do Public Representatives Promote the Special Interests or Support the Common Good?" featured two former senators (left-liberals Birch Bayh of Indiana and John Culver of Iowa) and former Clinton domestic policy adviser William Galston. And addressing "Civil Society: Who Participates and What Are the Barriers to Participation in the United States?" was "consumer advocate" (and hired gun of the trial lawyers) Ralph Nader. As far as I could tell, in four days of debates and panels before the Fulbright professors I was the only person who supported smaller government.

Par for the USIA Course

What most people don't realize is that promotion *of* big government *by* big government goes on all the time. The U.S. government scours the globe for bright scholars and thinkers and then brings them to Washington at taxpayer expense to be propagandized on behalf of the ideology of big government.

The 1995 annual report of the J. William Fulbright Foreign Scholarship Board, which was distributed at the conference, contains a great deal of whining about not getting enough money from the taxpayers and noted that "the Board and others responsible for the Fulbright Program had failed to communicate

Tom Palmer is director of the Project on Civil Society at the Cato Institute in Washington, D.C.

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According to the USIA, America is prosperous because there is so much state control, coercive income redistribution, and bureaucracy, whereas all of America's problems stem from an excess of laissez faire.

effectively to Congress and its constituent U.S. taxpayers the unique value . . . of the Fulbright Program in particular, and consequently had failed to communicate the consequent national interest of the United States in protecting the Fulbright Program from diminution." A major theme of the report was "How does it [the Fulbright program] serve the national interest and why should Congress continue to support it?" This is a good case of your tax dollars at work, lobbying for more tax dollars.

It is at least a debatable question whether the national interest is served by indoctrinating foreign students, professors, and teachers with welfare statist ideology. Surely they get enough of that at home already. Well, evidently not, according to the bureaucrats at the USIA, who stand ever ready to export American-style statism.

I well recall my work in central and eastern Europe in the late 1980s and early 1990s, when I spent more time battling the USIA than I did the communist authorities. On one memorable occasion, my friends at the Liberty Institute of Bucharest had arranged a meeting with the board of directors of the Humanitas Publishing House, at the time the largest and most prestigious serious publishing house in Romania. One of the directors was favorable to publishing translations of books in the classical liberal tradition, such as Robert Nozick's *Anarchy, State, and Utopia*, Ludwig von Mises's *Liberalism*, David Friedman's textbook *Price Theory* (for university use), Nobel laureate Ronald Coase's essays on the nature of the firm, and so on. The director had invited me to make a presentation to the board. I did so, with translation handled by a Romanian libertarian economist, and I offered to handle the copyright negotiations (which I had successfully done in other countries), to find contributors to pay for the copyright fees, and to donate some money to support the translation work.

Unfortunately, a representative of the USIA had come from the U.S. Embassy and rather crudely pooh-poohed the books. ("Nobody in America reads that stuff," he noted.) He then offered a very large subsidy (I recall the figure of $20,000) to publish the works of the leading theorists of the American system, namely, Robert Reich, Robert Heilbroner, and Robert Kuttner, statist social democrats all. (It was very difficult to argue with the combined force of a wad of taxpayer money and the prestige of the U.S. Embassy. As a result, books that actually explained the principles of a market economy and constitutionally limited government were not published by that firm. Thanks, USIA.)

The USIA Vision of America

According to the typical USIA representative, America is prosperous because there is so much state control, coercive income redistribution, and bureaucracy, whereas all of America's problems stem from an excess of laissez faire. And it seems that it is the job of the USIA to tell the world how much better off they would be if they were just to copy what is best about America: the post office.

The stateside program in which I participated offers telling evidence that Washington has developed an enormous network of persons and institutions dedicated to extracting the maximum amount of wealth from the taxpayers and to imposing on the general public the agenda of those with power. Most of the institutions that were represented on the panels are coercively funded and spend much of

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their effort justifying that funding and jockeying for ever more of the public's earnings. In the process, I told my audience, great clouds of deceit are generated to obscure the fundamental nature of the process, to concoct specious legal justifications for immoral, illegal, and unconstitutional acts. As I explained to the assembled Fulbright scholars, our hosts were as culpable as the other organizations. So much for expecting to be invited back.

Congress is all atwitter about snipping a mere $128 million a year from the budget by eliminating the National Endowment for the Arts. I'm all for that. After all, politicizing art is dangerous and immoral in a free and pluralistic society. But using tax dollars to promote a particular political agenda is probably even worse. How about closing down the USIA ($1.2 billion a year) and the Fulbright Scholars program (about $98.9 million from USIA and another $96.4 million from the Department of Education, foreign governments, and "in-kind donations" from the private sector)? That would stop Washington bureaucrats from promoting a distorted and highly partisan vision of America to the best young scholars of the United States and the rest of the world. □

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Hayek Was Right: The Worst Do Get to the Top

In spite of freedom's remarkable, global progress in recent years—from the collapse of the Soviet empire to the growth of "privatization"—there is no sign yet of a shortage of statists with silly and destructive schemes. The best explanation of why and how such people get into positions of power is still found in "Why the Worst Get on Top," which is chapter ten of F.A. Hayek's masterpiece, *The Road to Serfdom*.

When Hayek wrote his best-known book in 1944, the world was captivated by the notion of socialist central planning. While almost everyone in Europe and America decried the brutality of nazism, fascism, and communism, public opinion was being shaped and molded by an intelligentsia which held that these "excesses" of socialism were avoidable exceptions. If only we make sure the right people are in charge, said the statist intellectuals, the iron fist will dissolve into a velvet glove.

Those who, in Hayek's words, "think that it is not the system which we need fear, but the danger that it might be run by bad men," are naïve utopians who will forever be disappointed by the socialist outcome. Indeed, this is the history of twentieth-century statism—the endless search for a place where the dream might actually be made to work, settling on a spot until disaster is embarrassingly apparent to all, then blaming persons rather than the system and flitting off to the next inevitable disappointment. Perhaps someday, the dictionary definition of "statist" may read, "Someone who learns nothing from human nature, economics, or experience, and repeats the same mistakes over and over again without a care for the rights and lives of people he crushes with his good intentions."

Even the worst features of the statist reality, Hayek showed, "are not accidental byproducts" but phenomena that are part and parcel of statism itself. He argued with great insightfulness that "the unscrupulous and uninhibited are likely to be more successful" in any society in which government is seen as the answer to most problems. They are precisely the kind of people who elevate power over persuasion, force over cooperation. Government, possessing by definition a legal and political monopoly of the use of force, attracts them just as surely as dung draws flies. Ultimately, it is the apparatus of government that allows them to wreak their havoc on the rest of us.

Hardly a day goes by that, a half-century after Hayek wrote, the newspapers fail to provide new examples of the worst getting to the top. Two recent ones from opposite ends of the globe will permit me to illustrate Hayek's wisdom.

In France on October 10, 1997, the socialist Prime Minister Lionel Jospin proposed a law to forcibly cut the allowable workweek. Employers would be required by the year 2000 to reduce the hours their employees work from 39 to 35, with no loss of pay.

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Jospin demagogically promised the French people that the law would create "lots of jobs." Of course, this was not meant to be a friendly request of the nation's employers; it is to be a *requirement*, meaning that employers who strike a different deal with their own workers for more than 35 hours will have to be fined, jailed, or both. The prime minister made no mention of the fact that one of Europe's most regulated and expensive welfare states had priced French labor out of many markets and produced the high unemployment he now professed an intent to reduce.

In Malaysia during that same week in October, Prime Minister Mahathir Mohamad lashed out at assorted "rogues," "morons," and "neocolonialists" whom he blamed for the fall in value of the Malaysian currency, the *ringgit*. Reminiscent of crazed powermongers of the recent past, he even suggested that Malaysia's economic troubles were the result of a "Jewish agenda." He called not for an end to his government's policy of cranking out paper *ringgits* for boondoggles like the world's tallest building, but rather for outlawing the trading of currencies as "unnecessary, unproductive, and immoral."

Jospin's belief that job creation will result from making it illegal to work more than 35 hours and forcing employers to pay workers for less output is, of course, ludicrous. It is doomed from the start to produce more unemployment, not less, because it makes every employee more costly to his employer.

Mahathir's attempt to foist blame on anything but his own previous interventions is just as ludicrous. Perhaps he fancies himself a modern King Canute, commanding the waves of currency trading to stop and thereby solve his problems for him. Of course, the waves will still come for Mahathir, just as they did for Canute, but he may lop off plenty of heads in the process.

These two benighted characters on the stage of international politics don't know it, but they are reading from Hayek's script. In his "Why the Worst Get on Top" chapter, he says of the central planner or "potential dictator," ". . . he will be able to obtain the support of all the docile and gullible, who have no strong convictions of their own but are prepared to accept a ready-made system of values if it is only drummed into their ears sufficiently loudly and frequently." At last report, the docile and the gullible are firmly in Jospin's and Mahathir's corner.

The statist demagogue, avers Hayek, appeals to "hatred of an enemy" and "the envy of those better off" to gain the "unreserved allegiance of huge masses." For Jospin, it's the greed of private employers; for Mahathir, it's the Jews. The worst love to employ bigotry to score political points on the road to accumulating power.

Hayek notes "an increasing tendency among modern men to imagine themselves ethical because they have delegated their vices to larger and larger groups. To act on behalf of a group seems to free people of many of the moral restraints which control their behavior as individuals within the group." Perhaps both prime ministers would personally oppose an individual who forced his boss at gunpoint to raise his pay, or an individual who tarred and feathered a currency trader, but they have no problems with making these activities national policy.

Give government lots of power and silly people who have little tolerance for the lives and views of others will line up to get government jobs. Those who respect others, who leave other people alone, and who want to be left alone themselves, apply elsewhere—namely, for productive jobs in the private sector. The bigger government gets, the more the worst get to the top of it, just as Hayek warned us in 1944.

The French and the Malaysians are but two of many peoples at the moment who, if they read chapter ten of *The Road to Serfdom*, would find F.A. Hayek describing precisely the woeful course they have chosen to take. □

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THE FREEMAN
IDEAS ON LIBERTY

The Primacy of Property Rights and the American Founding

by David Upham

Progressives in the twentieth century have in large part aimed at turning the American people away from their traditional attachment to property rights. A salient feature of their efforts has been the promotion of new opinions concerning the American Founders and their appreciation for the importance of those rights.

Within intellectual circles, Progressives have tended both to acknowledge that the Founders attached great significance to property rights and to denigrate them precisely for this attachment. The harsher critics, beginning with Charles Beard, ascribed to the Founders selfish motives in establishing a constitution that provided generous protections for private property; his claim was that the principal goal of such a constitution was to protect the wealthy elite against the democratic majority.

Beard's assertion has been coupled with the claim made by other scholars that not only were the Founders selfish, but they also understood all human beings to be primarily selfish, acquisitive creatures. In his influential book, *The American Political Tradition*, Richard Hofstadter wrote:

> They thought man was a creature of rapacious self-interest, and yet they wanted him to be free—free, in essence, to contend, to engage in an umpired strife, to use property to get property. They accepted the mercantile image of life as an external battleground, and assumed the Hobbesian war of each against all.

Milder "liberal" critics tended to focus their criticism not on the selfishness of the Founders, but on the infeasibility of their system in modern America. In his book, *The Promise of American Life* (1909), Herbert Croly, the founder of *The New Republic*, argued that the Founders' individualism had been appropriate to an agrarian pioneering nation, but was destructive to the modern industrial state, which needed vigorous direction from the national government. He criticized his contemporaries who failed to realize "how thoroughly Jeffersonian individualism must be abandoned for the benefit of a genuinely individual and social consummation."

Outside intellectual circles, however, the popular rhetoric of the Progressives has not openly attacked the Founders for their attachment to property rights; rather, it has denied they had such an attachment. Franklin Roosevelt, eager to convince the public that the New Deal was not so new, but actually a "fulfillment of old and tested American ideals," often argued publicly that the Founders did not understand property rights to be as important as other individual rights. In one campaign speech, Roosevelt remarked that Jefferson had distinguished between the rights of "personal competency" (such as freedom of

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opinion) and property rights; while the former were inviolable, the latter should be modified as times and circumstances required.

Property Rights Paramount

A reading of the important founding documents, however, shows clearly that the Founders held property rights to be as important as other human rights. In fact, at times they insisted that the right to acquire and possess private property was in some ways the most important of individual rights.

Only one who ignores the history of the founding period could deny that the men of that era held the right to private property in high esteem. Indeed, it could be said that the central question of principle that animated the movements that led to independence and the framing of the Constitution concerned property rights; for it was a threat to property rights, in the form of taxation without representation, that initiated the crisis that led eventually to independence. Moreover, it was largely the undermining of property rights by state legislatures under the Articles of Confederation that prompted the framing of a new national constitution that would protect the individual right to property against infringement by national and state government power. (The state abuses of power during the 1780s included the cancellation of private debts either directly or indirectly, especially through deliberately inflationary policies and the emission of worthless paper money as legal tender.)

So insofar as the Founders made any distinction between property rights and other individual rights, they insisted that property rights were at least as important as personal rights. In Federalist 54, James Madison stated tersely: "Government is instituted no less for the protection of the property than of the persons of individuals."

As Madison later elaborated, property rights are as important as personal rights because the two are intimately connected. The right to labor and acquire property is itself an important personal right and entitled to government protection; and the property acquired through the exercise of this personal right is entitled, by derivation, to an equal protection. As he put it in his "Address at the Virginia Convention":

> It is sufficiently obvious, that persons and property are the two great subjects on which Governments are to act; and that the rights of persons, and the rights of property, are the objects, for the protection of which Government was instituted. These rights cannot well be separated. The personal right to acquire property, which is a natural right, gives to property, when acquired, a right to protection, as a social right.

If property rights were understood to be as important as other rights, how are we to account for the failure of the Declaration of Independence to mention the word and its conspicuous substitution of the phrase "pursuit of happiness," thus altering the traditional Lockean formula, "life, liberty, and property"? Does this not suggest at least a subordination of property rights to other rights? Indeed, some contemporary scholars have argued that the language of the Declaration manifests the Founders' intention to subordinate private property to happiness, understood as public happiness. Yet the founding documents make abundantly clear that their authors understood the right to property to be an integral part of the unalienable right to liberty. The authors of the Virginia Bill of Rights, the immediate antecedent to the Declaration, made this explicit. The first article of that charter states that all men "have certain inherent rights . . . namely, the enjoyment of life and liberty, *with the means of acquiring and possessing property*, and pursuing and obtaining happiness and safety" (emphasis added).

Taxation Without Representation

Because Americans understood the right to property as part and parcel of the right to liberty, they viewed taxation without representation—a violation of their economic freedom—as an attack on the whole of their freedom. The Stamp Act Congress, called to

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protest the first of those taxes, declared that "it is inseparably essential to the freedom of a people . . . that no taxes should be imposed on them, but with their own consent." In a similar vein, Jefferson wrote: "Still less let it be proposed that our properties within our own territories shall be taxed or regulated by any power on earth but our own. The God who gave us life, gave us liberty at the same time: the hand of force may destroy, but cannot disjoin them."

In fact, American authors continually insisted that such taxation, however small the amount, on principle was tantamount to slavery. As one patriot, Silas Downer, affirmed, if the colonists yielded to the tax power of the British Parliament, this would place them "in the lowest bottom of slavery." He continued: "For if they can take away one penny from us against our wills, they can take all. If they have such power over our properties they must have a proportionable power over our persons; and from hence it will follow, that they can demand and take away our lives, whensoever it shall be agreeable to their sovereign wills and pleasure."

To make a claim on the economic liberty of individuals or their community is to make a claim on their entire freedom. In the end, no real distinction could rightfully be made between personal and economic liberty. Accordingly, the Founders understood unjust taxation as not merely a financial or economic issue but an issue with implications for the whole of human liberty.

The Founders' attachment to economic freedom was in no way, in their understanding, opposed to the principle of equality. As Lincoln repeatedly emphasized, the equality proclaimed in the Declaration is not an equality in all respects. The "authors of that notable instrument . . . did not mean to say all were equal in . . . intellect, moral developments, or social capacity. They defined with tolerable distinctiveness, in what respects they did consider all men created equal—equal in 'certain unalienable rights, among which are life, liberty, and the pursuit of happiness.' This they said and this they meant."

Moreover, not only did the Founders' understanding of equality not include all kinds of equality (such as the equality of economic condition championed by the Progressives), their conception of human equality necessarily excluded equality of condition. They believed that everyone had an equal right to exercise his individual abilities to acquire property, abilities that were by nature unequal, and that the equal right to employ unequal talents would necessarily lead to economic inequality. As Alexander Hamilton stated at the Constitutional Convention: "It is certainly true that nothing like an equality of property existed: that an inequality would exist as long as liberty existed, and that it would unavoidably result from that very liberty itself."

Not only did the Founders affirm that property rights were as important as other personal rights, at times they insisted that property rights represented the most important of rights. In Federalist 10, James Madison wrote that the protection of "the faculties of men, from which the rights of property originate . . . is the first object of government." In what way did the Founders understand the protection of the acquiring faculties to be the first function of government? Contrary to the assertions of authors such as Richard Hofstadter, it was not because they believed that acquiring property was the main or most important human activity. Men who willingly risked their "lives, fortunes, and sacred honor" for the sake of their country's freedom were obviously not the type who considered the accumulation of material goods to be the end of human existence.

First Object of Government: Protect Property Rights

Nor did they understand property to be the most important right absolutely and in all respects. The Founders did not seem to share the Lockean view of property as the paradigmatic right by which all other rights can be understood; for the political writings of the period suggest that they understood the right to property to be a form of liberty rather than liberty a form of property. Moreover, other rights could certainly make a claim to prima-

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cy. From one perspective, life is the most important of rights because it is that right upon which all others are dependent for their exercise. Religious freedom, as understood by the Founders, could also be seen as the most important right, because it is founded on the highest duty of the individual: the duty that he owes the Creator to worship Him according to the dictates of his own conscience, to paraphrase the Virginia Bill of Rights.

So property was not understood to be the most important right absolutely. The Founders, however, did seem to have viewed property rights as primary in two important respects. The first one is suggested in Federalist 10's discussion of the problem of faction. Madison there defines faction as a number of citizens "who are united and actuated by some common impulse of passion, or of interest, adverse to the rights of other citizens, or to the permanent and aggregate interests in the community." After affirming that the protection of the acquisitive faculties is the first object of government and noting that "[f]rom the protection of these different and unequal faculties, the possession of different degrees and kinds of property immediately results," Madison pointed out that "the most common and durable source of factions has been the various and unequal distributions of property." The inference is that the rights most often threatened by faction are the rights of property.

This is a lesson that Madison and the other Founders learned from history, especially their own. On one hand, a foreign faction, the British Parliament, had begun its encroachment on colonial rights with an assertion of taxation power over the property of the colonists. On the other hand, after independence, Americans saw that a domestic faction, namely, a passionate majority operating in state legislatures, could also threaten individual rights; and the first right to be undermined was the right to property, through the pursuit of deliberately inflationary policies and the cancellation of private debts. From such experience, Madison and other leaders learned that statesmen should view property as the most important right because it is most often the first object of a faction's hostility.

Constitutional Protection of Property

Because of the relative vulnerability, property rights were afforded the most extensive guarantees in the Constitution. Among the specific limitations placed on congressional power in Article I, most either directly or indirectly were designed to protect property rights. These included: the restrictions on direct taxes, the ban on export duties, the prohibition on preferential treatment of different ports, and the ban on taxation of interstate commerce. These guarantees were later supplemented by the Fifth Amendment's due process clause and the ban on the national government's taking property without just compensation (later made applicable to state governments by the Fourteenth Amendment).

The original Constitution provided even more extensive guarantees for property rights against infringement by the state legislatures. These included the ban on state duties on imports and exports, as well as prohibitions on the coinage of money, the emission of bills of credit, the establishment of anything other than gold and silver as legal tender, and the passing of any law impairing the obligations of contracts. Moreover, the bans on state bills of attainder and ex post facto laws were designed to protect property rights more than personal rights. Finally, besides the specific guarantees, the framers of the Constitution established, with the use of such institutional devices as checks and balances, a government designed for stability—a feature they promoted as most friendly to economic freedom.

The second reason that property rights were viewed as primary was that they served as a practical guarantee for other rights. In effect, not only were property rights the most vulnerable, they were also the first line of defense for the other rights. According to the Founders, property was not only a right in itself, but also a means to the preservation of other rights. Economic freedom was understood to serve the other personal freedoms in two ways. First, property meant practical power. An economically independent people were best able to maintain their political independence. Indeed, the ownership of prop-

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erty was of immense importance to the practical independence not only of the people as a whole, but also of the individual citizen. As Edmund Morgan wrote in *The Birth of the Republic*, the "widespread ownership of property is perhaps the most important single fact about Americans of the Revolutionary period. . . . Standing on his own land with spade in hand and flintlock not far off, the American could look at his richest neighbor and laugh."

Moreover, the personal economic independence afforded by private property instilled in the citizenry a spirit of personal independence, a virtue absolutely necessary to a self-governing people. Economic dependence, on the other hand, "begets subservience and venality, suffocates the germ of virtue, and prepares fit tools for the designs of ambition," Jefferson observed. The virtue of the people that comes from personal independence is important because, as Jefferson noted: "It is the manners and spirit of a people which preserve a republic in vigor. A degeneracy in these is a canker which soon eats to the heart of its laws and constitution."

It was because the Founders understood property rights to be absolutely essential to republican virtue that many of them favored restricting the suffrage to property holders. One will look in vain for any statement by the leaders of that generation claiming that those without property were inferior in their unalienable rights or their fundamental human dignity. What many (not all) of the Founders did believe, rightly or wrongly, was that a state in which the privilege of voting was restricted to property holders was the best means to ensure a government that protected the basic rights of all, rich and poor. At the constitutional convention, John Dickinson spoke for many present in arguing that "freeholders"—or landowners—(who constituted the vast majority of the people) were "the best guardians of liberty."

Those without property were thought to be far too dependent on those with it to be able to exercise an independent vote. Gouverneur Morris argued: "Give the votes to people who have no property, and they will sell them to the rich, who will be able to buy them. . . . The man who does not give his vote freely is not represented. It is the man who dictates the vote." Although ultimately, the convention decided not to establish national requirements for the suffrage and left it to the discretion of state governments, the sentiments expressed during the convention debates show why many states retained property qualifications for voting; for many leaders understood a property-holding citizenry to be the best guardians of freedom.

Whatever may be the merits of the extension of the suffrage only to property owners, this much is clear: the Founders' opinions in this regard manifest clearly that they did not hold property rights in low esteem. As we have seen, they viewed the right to property to be not only as important as other human rights, but in some respects as the most important human right. Economic freedom was a most important freedom, and its vulnerability to factional hostility required that it be afforded extensive constitutional guarantees. Paradoxically, this most vulnerable of freedoms was also understood to be the best practical guarantee of the other freedoms; for the private ownership of property provided not only real power to the citizens, it also instilled in them that virtue of self-reliance and self-governance essential to a politically self-governing people. □

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THE FREEMAN
IDEAS ON LIBERTY

Property and the Moral Life

by Jason Baldwin

Hayek's bold statement that "Private property is the most important guaranty of freedom" holds true at many levels. Certainly it is private property that allows the individual to be independent from the whims of his government and his fellows. And, as Robert Nozick has elegantly argued, any ahistorical scheme to redistribute property is incompatible with the individual's freedom to dispose of his property as he chooses. But I want to focus in this essay on the ways that the institution of private property forms the necessary background for the freedom that engenders individual moral responsibility.

To understand aright this connection between private property and moral freedom, we must begin with an observation about the nature of freedom: the ascription of freedom to a creature is only meaningful if that creature exists in a more or less fixed environment. Or, put another way, freedom requires limitation. This is because the realm of freedom is the realm of choice, and choices exist only for creatures who are confronted with a reality that does not twist itself into conformity with every human wish.

As C.S. Lewis so clearly discerns in his discussion of the problem of evil, any society of free individuals requires a common field of play within which the individuals may interact. For human beings, that field of play is the material world. "But if matter is to serve as a neutral field it must have a fixed nature of its own," Lewis writes in *The Problem of Pain*. The externality of other people and objects creates the sphere of choice and action that makes moral responsibility possible. The fixity of the human environment means that even in our choices, we never escape limitation. For not only is the range of options always limited, but the very act of choosing is, paradoxically, an act of self-limitation.

In *The Myth of Democracy*, Tage Lindbom argues that "We live in a subject-object antinomy, and we cannot escape the antinomies of existence. Even freedom of will, freedom of choice, comes to an end, at least from the formal standpoint. We are bound to what we have freely chosen." This means that authentically human freedom is not freedom from commitment, but freedom to commit. And commitment entails responsibility for the consequences of one's choices. The fixed material world is the matrix for the exercise of human freedom.

Survival, Duty, and Self-Development

The institution of private property attaches pieces of the material world to particular moral agents. Private property endows the spatio-temporal actions of individuals with moral significance. This is true in at least three senses. First, private property allows the

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individual to be responsible for his own survival. Man is both spirit and body, and his physical existence requires certain material conditions to sustain it. The possibility of property places the responsibility for survival squarely on the individual's own shoulders. Put more concretely, the institution of private property allows me to build my own house if I want shelter, to grow my own crops if I want food, and to chop my own wood if I want heat.

Obviously there can be no incentive for anyone to engage in productive labor if the fruits of that labor are liable to be plundered by his less industrious neighbors. Under such circumstances, the concept of exclusive private property ceases to exist meaningfully. The more likely scenario in today's world is that the state will claim the final say to distribute all property so as to achieve some guaranteed social minimum. Such a guarantee, possible only at the expense of private property, destroys the individual's responsibility to meet his own needs. Moral freedom requires choices and consequences through time: I deserve present consequence Y because of my own past action X.

The welfare state creates a radical disjunction between choices and consequences. When the state provides for my material well-being, I am no longer morally free to make choices that determine my future; no matter what I do or don't do, the state will provide for my physical needs. As Richard M. Weaver maintains in *Ideas Have Consequences*, "no society is healthy which tells its members to take no thought of the morrow because the state underwrites their futures. The ability to cultivate providence, which I would interpret literally as foresight, is an opportunity to develop personal worth." The freedom of responsibility to provide for my own survival can exist only where the respect for private property allows me to do so.

A second way private property promotes moral freedom is by allowing the individual to freely discharge his moral duty to his neighbors. It is an axiom of ethical theory that morally meaningful actions must be performed freely. This condition of freedom would naturally hold for the material duties that men owe to one another: to satisfy whatever duty I may have to help those in need, I must be free to give my property to them. But the welfare state denies property owners the opportunity to exercise this form of moral agency. Robert Nozick, in *Anarchy, State, and Utopia,* frankly notes that "Taxation of earnings from labor is on par with forced labor." The welfare state essentially enslaves those who attempt to work for themselves and forcibly redistributes their property along utilitarian lines. In this way, the rape of private property destroys the individual's opportunity to exercise the virtues of charity and beneficence. The private citizen cannot be credited as morally praiseworthy for relinquishing wealth that is coercively seized from him. Freedom is the necessary condition of moral responsibility, and private property is the necessary condition of freedom.

The third way in which private property guarantees moral freedom is by providing the individual with the material media for the full development of his person. Much of the distinctively human work we do, we do with property. According to Weaver, "ownership provides a range of volition through which one can become a complete person." Man could neither write nor sculpt nor perform nor build without the opportunity to own the tools and media that make these activities possible. Private property becomes the material manifestation of realized individual potentials.

The necessary connection between private property and freedom in the realm of self-development may perhaps most clearly be seen by examining what happens to individual identity when private property is sacrificed to equality. John Rawls regards private property as subordinate to the desires of the least advantaged, and he concludes that both physical property and the individual traits that created the property should be regarded as the common property of the community.

It is certainly true that private property joined to disparate abilities makes inequality inevitable; some men will always be more talented and produce more of human worth than others. Individuality is easily destroyed when the material expression of that individuality through property ceases to be respected. In such a socialist, egalitarian society, the indi-

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vidual is denied the freedom to develop his personhood, because nothing he does can be viewed as truly and exclusively his own. Private property gives man the prerogative to define himself in the material world.

Freedom to Fail

The kinds of freedom made possible by private property obviously do not exhaust the conditions for moral agency. But our interactions with property do represent a substantial part of our responsibility, and our moral lives would be impoverished without the opportunities for choice that private property provides. At this point, I want to make explicit two implications of the relationship between property and moral freedom developed above. First, a painful but necessary part of any freedom is the freedom to fail. Applied to our use of property, moral freedom requires the freedom to be poor, the freedom to be selfish, and the freedom to be undistinguished. If private property were obliterated so that no one could be poor or selfish or undistinguished, no one could properly be said to be free. And what's more, history and scarcity give us every reason to believe that some people not only can fail, but will fail. Failure is the cost of freedom.

Second, the kinds of moral freedom I have addressed are linked to concrete, relatively small-scale properties. Massive, abstract, anonymous ownerships of stocks, options, and the like are legal fictions that, whatever their own virtues, weaken the bond between man and the material world, and hence weaken the moral freedom and responsibility that ownership engenders. In the classic Lockean understanding of property, individuals create possessions by mixing their labor with the material environment. The reality of global scarcity may give us reason to add to Locke's condition, but the purposeful labor of an individual is still a necessary starting point in understanding how it is that a person comes to be identified, in part, with his property.

When a man turns his money over to a broker who then buys shares of a mutual fund that itself buys shares in a variety of corporations around the world, the man may legally possess the mutual fund shares; but his connection to the businesses in which he is invested is far too weak, and often unwitting, to allow for any substantial moral agency on his part. Indeed, the whole modern notion of a corporation divorces men from responsibility and reduces property to a disembodied and dangerous abstraction. Ghost properties may promote a certain kind of freedom in the broadest libertarian sense, but they are neither necessary nor beneficial to the moral freedom that real property secures.

Lessons from Dostoyevsky

Few spokesmen represent the relationship between property and moral freedom more clearly than the Grand Inquisitor in Dostoyevsky's *The Brothers Karamazov*. The Inquisitor, centerpiece of Ivan Karamazov's poetic brief for atheism, condemns a returned Christ for his failure to feed the weak masses of humanity with the earthly bread they crave. Instead, Christ resisted the devil's temptation to temporal power and left men free to choose—to accept or reject, to obey or flout, to work or starve. So the Inquisitor and his church have stepped in to satisfy the mob's longing for security. Men groan under the agony of freedom and responsibility, and they gladly surrender their freedom and their property to the church in exchange for the most basic material guarantees: "No science will give them bread as long as they remain free, but in the end they will lay their freedom at our feet and say to us: 'Better that you enslave us, but feed us.'"

In the character of the Inquisitor, Dostoyevsky brilliantly prefigures the horrifying connection between humanitarianism and totalitarianism in the twentieth century. When the alleviation of physical suffering is pursued as the highest end of man, his freedom, his property, and often his life are brutally sacrificed on the altar of compassion. The same deontological respect for persons underlies both moral freedom and private property. But as we have seen above, any meaningful respect for persons must allow them to freely and responsibly fail. It is this possibility that Christ allows, and for which he is attacked by

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the Grand Inquisitor: "Respecting him so much, you behaved as if you had ceased to be compassionate, because you demanded too much from him."

An Abdication of Responsibility

The history of America in recent decades is in large measure the history of a people who, unwilling to bear the responsibility that freedom and choice require, have ceded larger and larger portions of their liberty and property to a national government that promises to provide materially. The recent round of cries for socialized medicine in this country signifies an abdication by many Americans of responsibility for their own lives and welfare. The figure of the Grand Inquisitor shows us the manipulative and dehumanizing face lurking behind the mask of statist humanitarian compassion.

The institution of private property cultivates and protects the moral freedom of the individual person by recognizing his essential dependence on the material world. The limits imposed by this material environment comprise to a large extent the conditions under which human beings make choices, and, thus, the conditions under which human beings exercise moral agency. The sphere of sovereignty that property provides is a sphere necessary to the moral autonomy of the person. Property forms a cushion of independence for each person from the moral intrusiveness of other individuals and the state. It is the fulcrum by which the lone individual makes his moral significance known to the forces that would strip him of his freedom. □

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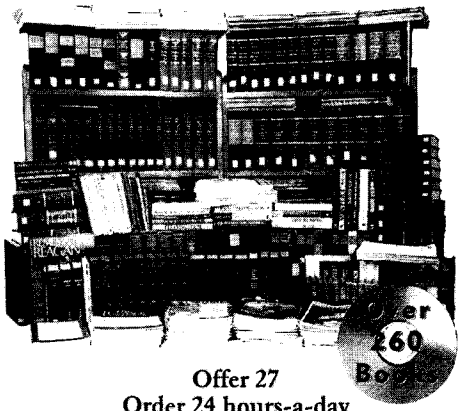

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THE FREEMAN
IDEAS ON LIBERTY

Campaign Finance: The Symptom, Not the Problem

by John T. Wenders

For decades politicians and pundits have been wringing their collective hands over massive political campaign contributions and spending. Almost daily there are revelations of campaign law violations and even suggestions of bribery. Pundits lament that many "good" people avoid political life because of the need to raise sufficient money to campaign effectively. Everyone agrees, in public, that "something must be done." But nothing ever happens. Maybe the time has come to ask why.

The issue, though, is not why reform never happens, but why people voluntarily give vast amounts of money to politicians in the first place. Clearly, those people who give think they are buying something. What is for sale? What is it that they demand and politicians supply? Identifying the product in this political marketplace will at least allow the debate to focus on the real issue.

The product, of course, is wealth. Wealth is desired because it makes people better off, and all human activity is a search by people to make themselves better off.

Two Ways to Get Wealth

Cooperating with others is one way to make yourself better off. You engage in some kind of quid pro quo, a voluntary exchange: I'll do something for you if you do something for me. I'll give you a hundred dollars, if you fix my car. If you give me five dollars, I'll cut your hair. Both parties come out ahead. Voluntary exchange is the basis for all economic activity. It is productive.

But there is also another method to get others to make you better off: stealing. Theft is a redistributive activity, as opposed to a productive activity. There are two basic ways to steal: the crudest way is to use force or the threat of force. This is an involuntary exchange, and it is condemned by all systems of law and ethics.

The other way to steal is to prevent people from engaging in voluntary exchanges and forcing them to exchange with you to your benefit. Forced exchange lowers the benefits the forced party would have obtained otherwise. For example, a giant food-processing firm lobbies hard to keep quotas on foreign sugar. That makes the domestic price of sugar artificially high and the price of the firm's corn syrup more attractive. The company is better off, but consumers are worse off.

This is always the case. Voluntary associations are productive; all participants are better off. Involuntary associations, no matter of what kind, are redistributive. Some are made better off, and others are made worse off. Further, redistributive activity makes the economic pie smaller by reducing people's incentives to produce and exchange. Why produce if someone is going to take some (or all) of it? Why produce to get something in exchange if you can get it for nothing?

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Government's Role

Government, of course, can play a role in both kinds of exchanges. Government can, and should, foster voluntary exchange. It does so by defining and protecting property rights—voluntary exchanges are simply exchanges of property rights—and by enforcing contracts, which are merely promises to exchange titles to property. This is what a good legal system is supposed to do.

But government also can, and unfortunately does, foster involuntary, redistributive exchanges of both kinds discussed above. Some taxes, of course, are needed to support the legal system that fosters voluntary exchanges by protecting property rights and enforcing contracts. But those taxes are a tiny part of the total that government collects. Most taxes are purely redistributive. The money is taken from some and given to others, depending on their relative influence in the political process. Thus, manipulating the taxing-and-spending system is a major reason why people lobby politicians and make campaign contributions.

Redistributing wealth by preventing voluntary association is perhaps even more pervasive than redistribution carried out directly through the tax system. Every regulation benefits someone and hurts someone else, thus giving each an incentive to pay off politicians and regulators to tip the scales in their direction. Further, when the potential for regulation is present, affected people have an incentive to play the redistributive game, either offensively or defensively, even if nothing ever happens. As economist Ben Zycher wrote, "Politics is the art of wealth redistribution, and economic regulation is the continuation of politics by other means. Whatever rationale for regulation one chooses—natural monopoly, external effects of individual behavior, health and safety, requirements of national defense, ad infinitum—the universal characteristic of regulation, regardless of industry, time, or place, is a redistribution of wealth from political losers to those favored by regulators and politicians." ("Market Deregulation of the Electric Utility Sector," *Regulation*, Winter 1992, p. 13.)

Government as Broker

In essence, the cause of large political contributions and spending is the government's possession of the power to redistribute wealth. Originally, the U.S. Constitution properly and powerfully limited that power. Governments could not take private property without compensation, and then only for "public use"; governments could not interfere in private contracts; state governments could not interfere in interstate trade. On the civil side, governments could not interfere with freedom of speech, religion, and association. But over the last century, the constitutional prohibitions against the major means of redistributing wealth have been greatly eroded, opening the door to the offensive and defensive purchase of this power through political contributions.

The superficial response is to simply outlaw those contributions. But this does not get at the cause of the problem. As long as the supply and demand exist, such prohibitions will be largely ineffective. For years government has sought to deal with the drug problem by making drugs illegal and devoting billions every year to enforcement. Yet the market thrives. Sixty percent of all federal prisoners are drug offenders, and the drug problem persists. If there is supply and demand, there will be exchange, regardless of what the law says.

It is the same with campaign finance. The only real solution is to deal with the root cause: the supply and demand for the redistribution of wealth. And the way to do that is to return to the constitutional prohibitions against it. Then there would be nothing to buy. □

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THE FREEMAN
IDEAS ON LIBERTY

Economic Freedom and Economic Growth

by Randall G. Holcombe

One of the most enduring questions in economics is what causes economies to grow. The full title of Adam Smith's well-known treatise, *An Inquiry into the Nature and Causes of the Wealth of Nations,* published in 1776, clearly shows that the causes of prosperity were Smith's primary concern. He concluded that free markets, the protection of private property rights, and a minimal government presence in the economy lead to prosperity. In other words, economic freedom leads to economic growth.

Smith's conclusions were generally accepted among economists until the twentieth century, when developments in economic theory reversed the conventional wisdom and led economists to advocate central planning and government control as a better way to produce prosperity, especially among less-developed economies. At the end of the twentieth century, economists seem to be turning back to the ideas of Adam Smith. How could they not, especially after the collapse of most centrally planned economies around the world? Yet, driven by abstract economic theory, there still remains a challenge to the idea that laissez-faire policies best promote economic growth.

Adam Smith made the case that prosperity is produced through a competitive market economy. In such a setting, Smith noted in one of his more famous observations, individuals pursuing their own interests are led as if by an invisible hand to do what is best for the whole society. To promote resource allocation in competitive markets, Smith advocated low taxes and government expenditures, the protection of private property rights, and low tariffs to promote international trade. In other words, Smith argued that if a market environment were created and maintained, the economy would grow and prosper.

A few decades later, David Ricardo advocated the lowering of tariffs to promote free trade as a route to prosperity, supporting his arguments with his famous book, *Principles of Political Economy,* first published in 1817. Ricardo is perhaps best known for showing how everyone ends up better off when people specialize in the activities in which they have a comparative advantage and trade with others. The arguments of Smith, Ricardo, and others brought a reduction in government intervention in Britain and elsewhere, leading to a freer world economy and making the nineteenth century an era of unprecedented economic growth.

Another View on Growth

Although the idea that economic freedom leads to economic growth was not challenged directly, it nonetheless fell by the wayside earlier this century. That was due partly to developments in economic theory and partly to world events. Around the turn of the century, methods in economics began to more

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closely resemble the hard sciences, especially physics. Economic theory was developed through increasingly complex mathematical models. The economics profession supported those changes, believing that a more scientific understanding of the economy could produce better policies and even more prosperity. In mathematical terms, an economy's output could be depicted in a production function, where output is a function of inputs such as land, labor, and capital. More inputs produced more output, and the production function was able to show in clear mathematical terms the relationship between inputs and outputs.

When the world was beset by the Great Depression in the 1930s, the development of economics had already traveled far along this path. The National Bureau of Economic Research was established in the 1920s to produce better economic data to allow for more scientific management of the economy. The Keynesian revolution hit economics with the publication of John Maynard Keynes's *The General Theory of Employment, Interest, and Money* in 1936. Keynesian economics argued that modern economies need active government policies to manage them and to maintain prosperity. After World War II, those two developments in economics conspired to completely turn around the conventional wisdom on economic growth.

Worried about the possibility of another depression after the war, mainstream economists argued that the government needed to manage the economy in order to maintain prosperity. Economic growth, a significant part of economics since Adam Smith's day, declined in importance relative to the goal of promoting macroeconomic stability. Growth remained an important issue with regard to less-developed economies, however, and economists believed that they could engineer economic policy to produce growth in those economies in the same way they could do so in the developed world.

The most sophisticated economic models, both then and now, depicted a straightforward mathematical relationship between inputs—land, labor, and capital—and economic output. Thus, economies could grow more rapidly if they increased their inputs. In addition, increased efficiency might allow an economy to produce more output from the same quantity of inputs. Then and now, economists have envisioned increases in efficiency as products of technological advances. The most advanced economies would have to develop better technology through research and development, but less-developed economies may be able to grow simply by adopting the technology of developed economies.

The focus on inputs, coupled with an increasing acceptance of government management of the economy, led economists to recommend government planning as the best way to create growth in less-developed nations. Central planning, they said, could guarantee that economies invested a sufficient share of their incomes, could direct that investment to sectors that would add more value to the economy (for example, away from agriculture and natural resources, and toward manufacturing), and could ensure that the new investment embodied the most advanced technology.

Institutions such as the World Bank and the International Monetary Fund encouraged central planning in less-developed economies and pushed capital investment and adoption of modern technology by offering financial support to less-developed economies headed in that direction. Even in relatively free-market economies like the United States, economic experts supported those types of policies to create economic growth in less-developed nations. Regrettably, the nations that followed such policies did not grow, despite following the advice of the most prominent economists of the time. They would have done better to look back to the advice of Adam Smith.

The Two Views on Growth

Consider in more detail the differences in the two views on growth described above. Both sound plausible, and neither one could really be called wrong, but one view leads to good economic policy and the other leads to bad policy. Why? The twentieth-century approach to growth theory focuses on the

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inputs of the growth process. If we combine these inputs, it reasons, we will get this output. The Smithian approach looks at the economic environment that is conducive to growth. Following Smith's line of reasoning, an environment of economic freedom is the key to growth. The problem with the production-function approach is that it ignores the market mechanism that gives people an incentive to combine resources in a way that creates value for others.

Inputs are necessary to produce output, but without the right incentives, it is too easy to combine inputs in a way that makes the final output less valuable than the original inputs. In a market economy we take for granted that production leads to an increase in wealth, because firms that produce output less valuable than their inputs take losses and go out of business. Thus, in a market economy most firms create output more valuable than their inputs. In a centrally planned economy, the government can continue to misdirect inputs into inefficient production arrangements, perhaps not even realizing that resources are being squandered. Policymakers who designed development policy based on the production-function view of the economy failed to realize that it accurately represented the way that resources were allocated only within the framework of a market economy.

By focusing on the environment conducive to economic growth, the Smithian view pays less attention to inputs. However, Smith also recognized that the invisible hand of the market, if allowed to work within an environment of economic freedom, will do an effective job of allocating resources. Public policy need not be concerned with the production of capital, the incorporation of technology, or the development of a skilled labor force if that conducive environment is created. The economy will attract investment and provide the incentive both for workers to obtain marketable skills and for the adoption of more advanced technology. The right environment will attract the right inputs, but providing the right inputs will not create the right environment. If growth policy focuses on producing an environment of economic freedom, growth will follow. Without the right environment, growth will not occur, period.

Evidence Relating Freedom and Growth

Casual (but persuasive) evidence relating economic freedom and economic growth abounds. After World War II, Korea was divided: South Korea fostered a market-oriented economy, while North Korea maintained a centrally planned economy. As this is being written, many citizens of North Korea are starving because their economy is failing, while South Korea has one of the fastest-growing economies in the world. Similarly, after World War II, Germany was divided into East and West Germany, and again the one with the market economy prospered while the one with the centrally planned economy fell behind. Less than a decade ago, East and West Germany were central players in the cold war that threatened to erupt into World War III. East Germany eventually surrendered to West Germany without a shot being fired, because people in the East wanted to have the advantages offered by West Germany's economic system.

The former Soviet Union took the production-function model of growth very seriously, so the late empire provides an especially compelling example of the model's limitations. It invested heavily in physical and human capital, producing a highly trained and educated work force. It also invested heavily in research and development, placing great emphasis on science and engineering. By increasing the quality and quantity of its capital and labor inputs, and creating technological advances, the Soviet Union, according to the production-function approach, should have had one of the world's fastest-growing economies. Instead, it serves as an example that growth cannot be created by increasing inputs into the production process alone. More inputs lead to an increase in the value of output only when combined within an environment of economic freedom.

In light of their recent prosperity, it is easy to forget that nations like Japan, Taiwan,

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South Korea, Hong Kong, and Singapore were poor only a few decades ago. Nations that shunned the market system in favor of central economic planning, like the Soviet Union, China, and India, had economies that languished. Now that those formerly socialist countries are moving toward economic freedom, their economies have started to grow. The casual evidence is so clear that there is now a worldwide movement toward more economic freedom. Yet, as compelling as this casual evidence is, it still leaves open the question of what, exactly, the components of economic freedom are, and how much effect they have on economic growth.

A number of recent academic studies have helped shed light on this issue. The most in-depth examination of economic freedom is a study by James Gwartney, Robert Lawson, and Walter Block, *Economic Freedom of the World: 1975-1995,* published in 1996 by the Fraser Institute. They develop a good numerical measure of economic freedom and show that it is strongly correlated with economic growth. Other academic studies have produced similar results, providing evidence that an environment of economic freedom will attract the inputs necessary to produce economic growth. Those studies examine many other factors, but conclude that the key ingredient is economic freedom. After a century in which the theory of economic growth had moved steadily away from the ideas of Adam Smith, economists are now returning to them to show how economic freedom is vital to prosperity.

Economic Freedom and Political Freedom

After the collapse of the centrally planned economies of eastern Europe in 1989, followed by the demise of the Soviet Union in 1991, most of those nations enthusiastically embraced the principles of Western democracy, hoping political reforms would lead to Western-style prosperity. People in the West offered encouragement, but they supported democratic government more enthusiastically than laissez-faire economic institutions. Thus, it is especially important to understand what is meant by economic freedom as compared to political freedom, and what can be expected from both. While democracy is valuable in its own right, the evidence suggests that democracy by itself makes no contribution to prosperity. Economic freedom produces economic growth; political freedom does not.

This point is especially important in light of the expectations of those in emerging democracies. The citizens of those countries are being set up for a disappointment. If the nations that recently turned to democracy find that their economic conditions are not improving, they may turn their backs on democracy, opening up the opportunity for a return to dictatorship.

The evidence shows that economic freedom leads to economic growth even where countries have limited political freedom. The reverse is not true: political freedom, without economic freedom, does not bring growth. Therefore, it is vitally important that emerging democracies encourage free markets, protect property rights, provide a stable currency, and minimize the government's role in the economy. There is also evidence that nations with higher incomes tend to be more democratic and more protective of civil liberties and political freedoms. Thus, indirectly, economic freedom leads to political freedom.

The evidence clearly shows that without an environment of economic freedom, growth will not take place. Economic freedom contains a number of components, all of which must be in place for an economy to grow. An economy must have a stable monetary system, secure private property rights, an impartial legal system, low taxes, minimal government, and low barriers to international exchange. If any of these components are missing, an economy will not grow. □

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Regulators: The New Socialists

by Ralph R. Reiland

Socialism in the traditional sense—government ownership of the means of production and state control of jobs and incomes—is dead. From Leningrad to Managua, those who thought they had all the answers simply couldn't deliver the goods.

Still, here at home, while the United States was off winning the battles for free enterprise and limited government around the globe, an expansive, litigious, and belligerent form of neosocialism surreptitiously gained a foothold right under our collective noses.

In ways that Lenin would envy, vague and fluid laws paired with jackpot penalties for petty misdeeds have empowered government to tell us what to do and how to do it.

Yesterday's workplace disputes, significant or trivial, have become today's federal cases. In *The Excuse Factory*, Walter Olson shows how Kafkaesque employment laws have produced a workplace crisis that has destroyed businesses and jobs, cut efficiency, and inhibited personal freedom.

In San Francisco, for example, to obtain the proper mix of fire persons, recruits are no longer required to carry a 150-pound sack up a flight of stairs. Instead, a 40-pound sack is pulled across a smooth floor. While that's certain to please the gender-balancers at the Equal Employment Opportunity Commission, it's unlikely to turn out well for a 150-pounder, male or female, who's hanging from a flaming third-floor window.

Ralph Reiland, a scholar associated with the Commonwealth Foundation in Harrisburg, Pa., is an associate professor of economics at Robert Morris College and owner of Amel's Restaurant in Pittsburgh.

Inane Rules vs. Common Sense

With nearly every decision a potential lawsuit, the management of working relationships in America has become a giant game of constant jeopardy, a legal straightjacket where inane rules replace common sense. For me, as a restaurateur, I balk at the extent to which the government has added the duties of speech monitor to my job. A failure to watch and correctly interpret workplace conversations, inspect cartoons that roll off the photocopier, or censor jokes can easily result in a lawsuit for permitting disparate treatment or animosity between workers of different genders, races, abilities, religions, or ages.

With narcolepsy (the tendency to fall asleep at inappropriate times) now a protected disability, I can become a target under the Americans with Disabilities Act if I wake up a sleeping waiter. To accommodate a government employee with narcolepsy, a federal judge ruled that bosses should "tolerate an occasional nap."

I'm also on thin legal ice if I do or don't crack down on a cook who's packing a Beretta-92. A federal court ruled that a company could be sued for wrongful discharge for failing to accommodate the "chemical imbalance" of a dismissed employee who was bringing a loaded gun to work and stealing money from his coworkers.

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In Texas, a court ruled that the spouse of an employee carrying on an adulterous affair could sue the company for letting it happen. So now, in addition to keeping the beer cold, I'm in charge of observing and obstructing illicit attractions. If I don't perform the task with prudence, I might land in court for defamation and invasion of privacy.

I can also be sued for giving a negative job reference (defamation) and for giving a positive reference ("failure to warn" if an ex-waiter commits an atrocity at his new workplace).

Courts in California have ruled that it's an invasion of privacy for employers to have job applicants take tests that gauge their psychological stability, yet the employer is also held accountable if an employee snaps and is too harsh with customers or coworkers. In addition, business owners have been sued both for allowing nepotism (unfair to minorities who aren't in the family) and for prohibiting it (unfair to married couples.)

Miller Brewing Company, fearing harassment charges in today's litigious climate, fired Jerold Mackenzie after he offended a female coworker by describing a "Seinfeld" episode. Last summer a jury ordered Miller Brewing and a company vice president to pay Mackenzie almost $25 million for wrongful discharge. The judge later reduced the damages the vice president has to pay and said the woman who complained would not have to pay punitive damages for the firing.

Socialism by Other Means

"No one talks about nationalizing industries any more," says media baron Rupert Murdoch, "because the extraordinary growth of regulation has given effective control of them to the government without its having to assume the hassle of ownership." Trial lawyers play the supporting role of "private vigilantes," Murdoch asserts, "enforcing the neosocialist writ"—and extending the scope of regulations through the proliferation of litigation.

What's next? Olson points to an article in the *Harvard Law Review* that targets the legality of "face-to-face" hiring interviews that permit "illegitimate appearance evaluations." The author recommends that all job interviews be held behind screens.

According to another article in the journal, which questions "the legitimacy of allowing private employers to distribute jobs or income in accord with either current or potential productivity," I'm in clear violation of the Ivy League egalitarian vision because I pay more money to my best chef. Does anyone at Harvard know why it was nearly impossible to get a good meal at any Moscow eatery in the days of communism?

At the EEOC there's now this peculiar conclusion: "Absent discrimination, one would expect a nearly random distribution of women and minorities in all jobs." The Harlem Globetrotters, 50 percent female and 5 percent Asian? Manicurists, 50 percent male? Male decorators, 95 percent heterosexual? It's currently a federal crime for the owner of an Ethiopian restaurant, in order to enhance the milieu in the dining room (and to improve the waiters' knowledge of the cuisine), to hire an all-Ethiopian wait staff. In Chicago, after an eight-year legal battle and nearly $200,000 in legal bills, Korean-American entrepreneur Andrew Hwang threw in the towel in his janitorial service business. Hwang, out of step with the latest definition of diversity, was charged with hiring too many Koreans.

It's a safe bet that the vast majority of Americans would agree that America's regulators, barristers, lawmakers, and bureaucrats produce more grief and misery on any given day than all the office jokes that were ever told. Why do we put up with this? Perhaps it's time to give the overseers a dose of their own medicine: a class-action lawsuit, filed by millions of Americans, the next time they gang up and try to torment someone like Andrew Hwang. The charge? No different from what they're so quick to levy on the rest of us—intentional infliction of emotional distress, workplace harassment, and the creation of a hostile environment. Plus colossal extortion. □

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EMPIRE BUILDERS

How Michigan Entrepreneurs Helped Make America Great

BY BURTON W. FOLSOM, JR.
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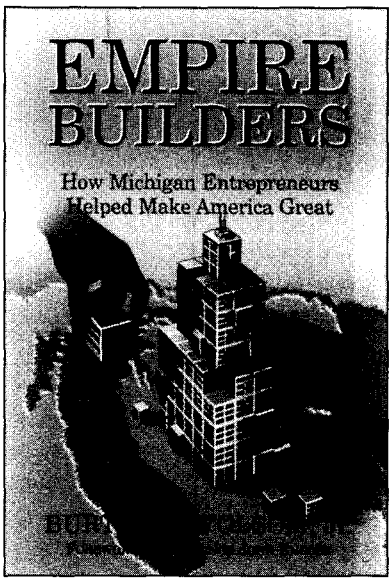

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Burton W. Folsom, Jr., is a senior fellow in economic education with the Mackinac Center for Public Policy in Midland, Michigan. He received his Ph.D. in history from the University of Pittsburgh and has taught American history at the University of Pittsburgh, University of Nebraska, Northwood University, and Murray State University, where he was a tenured full professor. He has written *Urban Capitalists* and *The Myth of the Robber Barons*. His articles have appeared in *The Wall Street Journal*, *The American Spectator*, *The Freeman*, *Human Events*, *Journal of Southern History*, and *Pacific Historical Review*.

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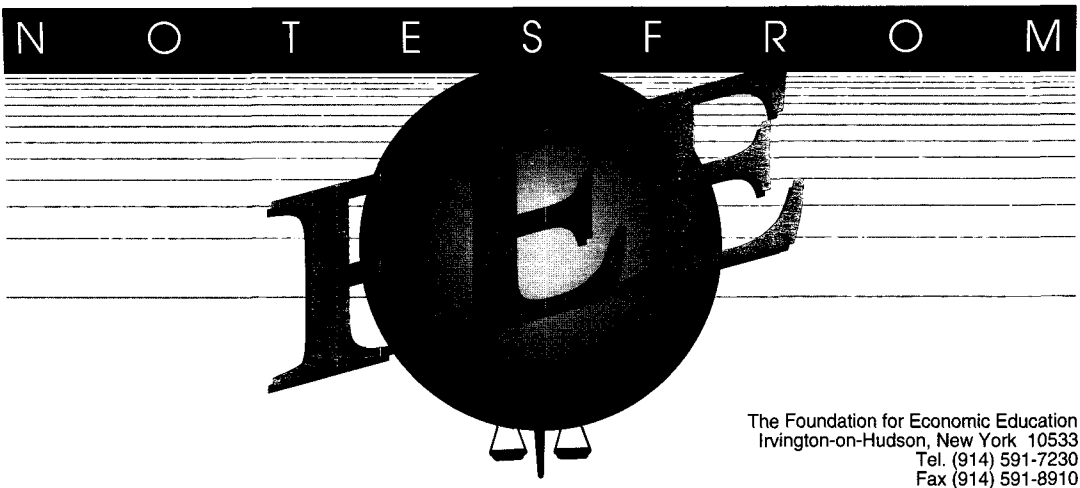

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February 1998

Much More Than Meets the Eye

Last October I watched a few telecasts of the Major League baseball playoffs. I noticed the Atlanta Braves's all-star pitcher Greg Maddux and asked myself: "What makes this guy so special?"

I studied his pitching motion. "It *looks* like something I could do with a bit of practice. Why am *I* not making millions of dollars pitching in the Major Leagues?"

Of course, I know that I could never hurl a ball with Maddux's combination of speed and accuracy—even if I could mimic very accurately the outward manifestations of his expert pitching style. Every single pitch delivered by Maddux is the result of countless precise muscle movements, only a tiny fraction of which are visible. In short, it is impossible really to observe how Greg Maddux pitches. All we can observe are a few rough external movements—how high he raises his leg, how far back he cocks his throwing arm, and so on. If skilled pitching indeed involved mastery of nothing more than the external movements every fan sees, then the world would be so awash with skilled pitchers that Greg Maddux would have to work two jobs to earn enough money to feed his family.

Maddux's unusual expertise is invisible. This expertise is his rare knowledge of how to coordinate the tens of thousands of sequential minute muscle movements necessary to get the ball over the plate at lightning speed. Not only can no observer ever see the complex coordination of indescribably exact muscle movements in Maddux's feet, legs, back, shoulders, arms, hands, and fingers, but Maddux himself could never hope to articulate to even the most perceptive listener just what he does.

In fact, we can never really see, or learn by words, how any pitcher pitches. We see only the surface phenomena—the tip of the iceberg. To watch a big-league pitcher pitch is to risk being misled into thinking that we *see* how to pitch. The actual pitching process is vastly more complicated than anything that can be observed, measured, recorded, communicated, or mimicked.

In this way, the market is like adroit pitching: everyone observes the surface phenomena but no one ever sees the underlying mechanism—invisible in its entirety—that gets the job done. Not even the most astute economist, entrepreneur, or financial analyst ever sees more than a sliver of the vast and intricate invisible workings of the market process that daily transforms raw mate-

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rials and human creativity into billions of consumer goods and services.

Leonard Read explained what he called the "white magic" of the market process in his justly praised article "I, Pencil." No one knows how to make an ordinary pencil; no one can *ever* know how to make a pencil. And yet pencils are produced in such huge quantities that they are virtually free for the taking. We have pencils not because some one person planned from the beginning the cutting of cedar trees, the mining of graphite, alumina, and bauxite, the extraction of petroleum and clay, or the organization of transportation to get supplies to pencil factories and pencils to retailers. When you contemplate the enormousness of all the tasks that are required to make a single pencil, you understand that no one can know how to do more than a tiny fraction of these tasks.

We have pencils (along with indoor plumbing, electric lighting, microprocessors, disposable diapers, camcorders, concert halls, . . .) only because for each of the countless tasks required for the production and distribution of each good there are a few people who specialize in knowing how to perform these tasks. But no one knows—or *can* know—how to perform *all* of the tasks required to produce even the most commonplace of goods. The free market works as well as it does because, when property rights are respected and fully transferrable, the resulting prices tell each of the producers at the innumerable different production "sites" just what (and how much) to produce and with what particular combination of resources.

For example, if the supply of crude oil falls, the resulting higher price will prompt manufacturers of paint to produce less petroleum-based paints and more linseed-oil or water-based paint. The resulting higher price of petroleum-based paints will prompt pencil manufacturers to paint fewer of their pencils with petroleum-based paints and more of their pencils with paints made of substances other than petroleum. As F. A. Hayek taught, the pencil manufacturer need never know *why* the price of petroleum-based paint rose; all that is required for this manufacturer to act appropriately is for him to conserve on his use of petroleum-based paint. The higher price of such paint achieves this goal.

Every hour of every day millions upon millions of specialists around the world adjust their plans based upon prevailing prices in light of their own unique knowledge of their specialties. Each of these adjustments, in turn, spawns further price changes that cause yet others to adjust *their* plans. This great web of mutual and continual adjustments allows the free market to deliver the goods (both literally and figuratively).

But this web, though we know it exists, is invisible. We see only its surface phenomena—goods on supermarket shelves, physicians' offices filled with magnificent diagnostic equipment, beer trucks making their daily rounds. No one ever sees the immense expanse of human cooperation across space and time—or the vision and gumption of entrepreneurs, or the highly specialized skills of workers—all of which are necessary if we are to enjoy even the most mundane of modern goods and services.

People who would plan an economy, or even regulate an industry, commit the cardinal sin against sound economics: believing that they can consciously *improve* that which they cannot hope to know. Just as it is utterly ridiculous for me to imagine that I can learn to pitch merely by studying videotapes of Greg Maddux, it is equally ridiculous for politicians or bureaucrats to imagine that they can improve upon the free market with knowledge only of the tiny part they are able to observe. Such conceit is toxic for a free society.

Donald J. Boudreaux
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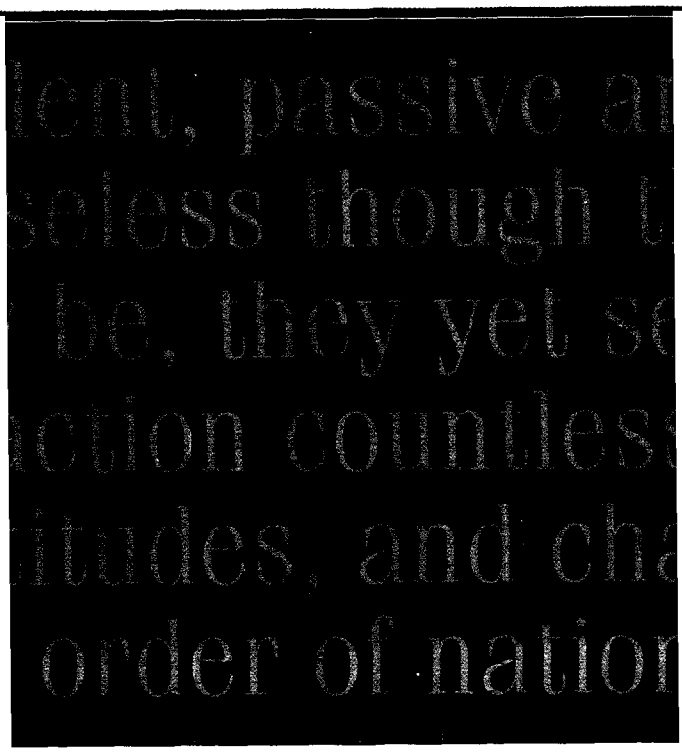

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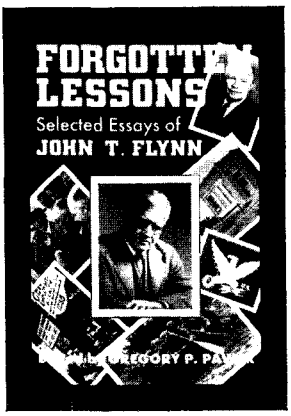

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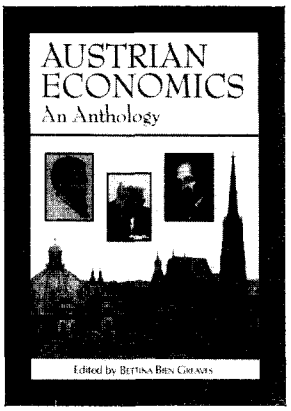

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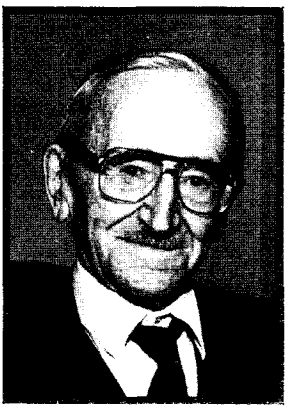
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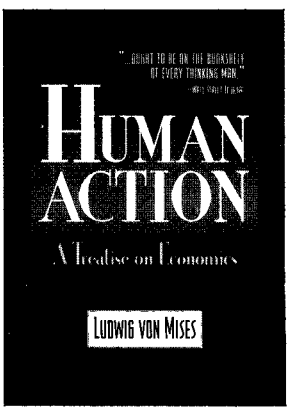

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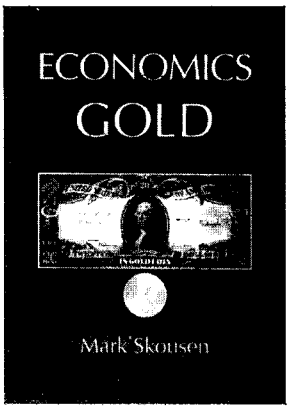

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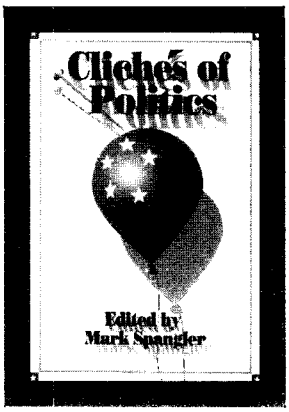

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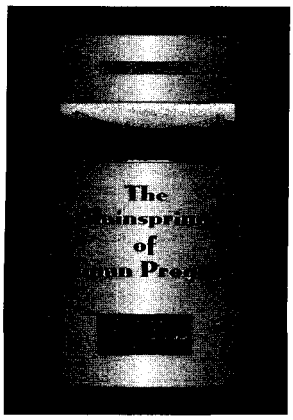

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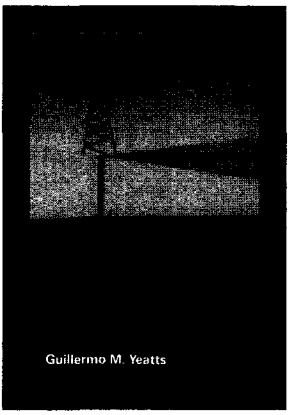

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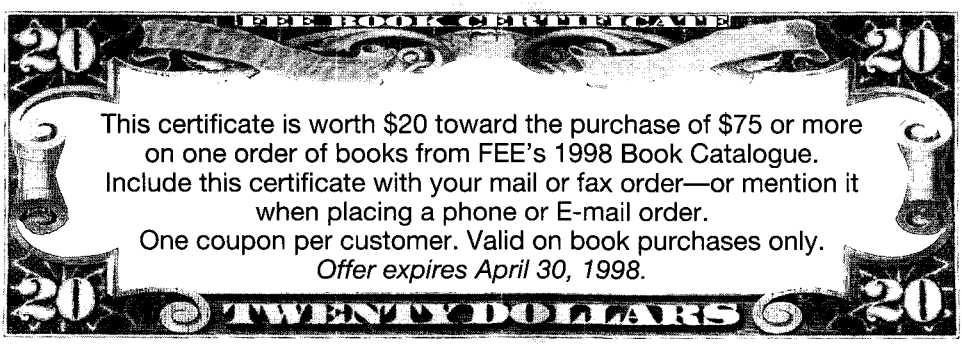
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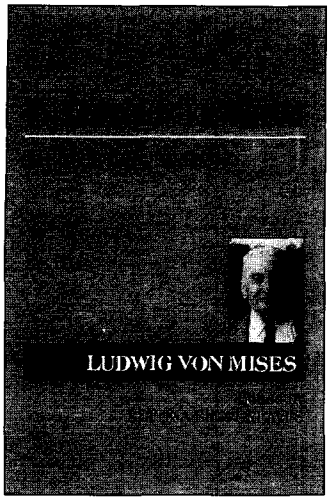

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BY LUDWIG VON MISES
Edited by Bettina Bien Greaves

The problem is not whether the capitalist system (i.e., the market economy) is good or bad. The real question is whether it would be in the interest of the masses of the people to replace the market economy by another system. As a rule, capitalism is blamed for the undesired effects of a policy directed at its elimination. The man who sips his morning coffee does not say, "Capitalism has brought this beverage to my breakfast table." But when he reads in the papers that the government of Brazil has ordered part of the coffee crop destroyed, he does not say, "That is government for you"; he exclaims, "That is capitalism for you."

All political arguments of our time center around capitalism, socialism, and interventionism. Certainly there are many more things to life. But our contemporaries—not just the economists—have placed the question of economic organization at the center of their political thinking. All political parties confine themselves to economic aspects; they recommend their programs with the assertion that their execution will make their supporters richer. All pressure groups fight for economic betterment; all parties are today economic parties.

No one should speak about interventionism who has not examined the economic consequences of interventionism. An end should be put to the common practice of discussing these problems from the standpoint of the prevailing errors, fallacies, and prejudices. It might be more entertaining to avoid the real issues and merely to use popular catchwords and emotional slogans. But politics is a serious matter.

I hope to render with this book a service to those who seek a clarification of their ideas and a better understanding of the problems of the world today.

—**Ludwig von Mises** (from the Author's Preface)

Bettina Bien Greaves is currently Resident Scholar at the Foundation for Economic Education.

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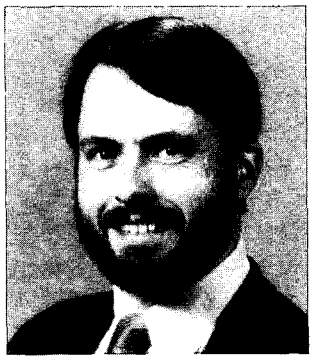

Taxpayers at Risk

It was too good to last. For several weeks Washington stayed aloof from the economic problems recently besetting Southeast Asia. Officials who normally intervene at the drop of a stock market were surprisingly restrained, seemingly allowing countries like Indonesia and Thailand to bear the consequences of their own economic mistakes.

But then Washington announced its backing for a $33 billion bailout of Indonesia led by the International Monetary Fund (IMF). The United States will indirectly provide much of those funds through its support for the IMF and allied institutions. The administration also unilaterally committed $3 billion in backup credit through the Exchange Stabilization Fund. Explained Treasury Secretary Robert Rubin: "Financial stability around the world is critical to the national security and economic interests of the United States."

Well, yes, but the financial stability of every nation around the globe? The United States bailed out Mexico three years ago; the reason, explained the administration, was that Mexico was unique. Its economy was intimately tied to that of America—the two nations had only recently inked the NAFTA trade accord—and refugees might flood across the border if prosperity was not restored. America's southern neighbor could not be allowed to fail.

The argument was never convincing—the slump in an economy a tenth the size of America's in no way threatened U.S. prosperity—but at least the contention had some surface plausibility. And there was only one Mexico. No other developing state could make a similar claim to U.S. aid.

Then along came Indonesia. Jakarta has been liberalizing, but its economy remains bedeviled by inefficient monopolies, insolvent banks, harmful trade barriers, wasteful food subsidies, and political favoritism. Being a relative, or married to a relative, of President Suharto is the surest way to wealth. "The Suharto crowd," notes Holman Jenkins of the *Wall Street Journal*, "has laid its hand on every good thing the country has to offer, making themselves impossibly rich and, also, just impossible." Indeed, Indonesia is a prime example of what *National Review's* Richard Brookhiser was referring to when he observed that "Asian capitalism, to the degree that it is different from plain old capitalism, is weaker, bleeding money to the politically connected, cushioning the powerful from their business blunders."

Thus, the Suharto government has no one to blame but itself for its problems. The collapse of Indonesia's currency and stock market forced the regime to inaugurate serious economic reform. The resulting "structural reforms are more important than the size of the [aid] package," observed Indonesian business analyst Pablo Zuanic.

Notably, the changes were necessitated by Indonesia's problems, not purchased by the

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Doug Bandow, a nationally syndicated columnist, is a senior fellow at the Cato Institute and the author and editor of several books, including Tripwire: Korea and U.S. Foreign Policy in a Changed World.

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promise of Western loans. Jakarta acted because it had to act.

Unfortunately, the bailout package will reduce the Suharto government's incentive to reform by relieving the pain of financial failure. Warns economist Mari Pangestu, "There are still some untouchables among banks and their customers, and you can't do anything with the untouchables." The regime certainly won't do anything about them—particularly the boondoggle aerospace and auto programs—unless forced to do so. When the government shut down 16 insolvent banks, Bambang Trihatmodjo, a son of President Suharto, warned threateningly: "I see it as an effort to sully our family name in order to indirectly topple my father, so that father won't be chosen as president again" later this year.

Yet today Indonesia is likely to do only the minimum necessary to receive aid. For a time it maneuvered to avoid any conditionality, attempting to arrange loans from Malaysia and Singapore rather than the IMF. Although that strategy failed, were Jakarta simply left to its own devices, it would have to adopt all of the reforms necessary to recondition its economy and reassure foreign investors, who tend to be more careful with their own cash than are international aid bureaucrats with tax monies from industrialized states.

Now that Washington has intervened to prop up a country with only a small economic connection to America (Indonesia, the Philippines, and Thailand collectively account for less than three percent of U.S. exports), what nation cannot expect help? One administration official told the *New York Times*: "We can't step into every economic mess." But what standard says yes to Indonesia and no to other nations suffering severe financial distress? On a single day last fall the *Wall Street Journal* ran articles with the following headlines: "South Korea Economy Feels the Pressure," "Russia's Finances Worsen, Imperiling Large IMF Loan," "Mexico Expects to Withstand Turmoil," and "After a Bad Week, Brazilians Wonder What Comes Next." Shortly thereafter Seoul requested an even bigger bailout than that received by Indonesia. Estimates of bad bank loans in Southeast Asia range upwards of $73 billion, or 15 percent of outstanding credit. Economists forecast lower growth throughout Latin America. How stable will the U.S. economy be if Washington continually underwrites economic failure around the globe?

Moreover, the administration's proclivity to bail out the profligate creates a danger of what economists call "moral hazard." The expectation of a subsidy encourages people to behave irresponsibly, as did many owners of federally insured savings and loans. International aid has similar effects. Warns economist Allan Meltzer, "banks and financial institutions can now act safe in the knowledge that the IMF will provide a safety net to protect them from some, or even most, of their losses."

Of course, if U.S. taxpayers are lucky, Indonesia and South Korea won't need their money, and if they do, like Mexico they will repay their loans. But even such a best case won't be costless, since credit isn't free. When Washington channels billions of dollars to a foreign kleptocracy like that in Indonesia, it diverts resources from other uses, such as investment by entrepreneurs in America. We will never know how much we have lost in order to promote "stability" in other nations.

The only other argument for American bailout is to maintain Washington's international clout. Weirdly, some Southeast Asians acted like a woman scorned after the United States failed to jump in at the first sign of economic trouble. "Americans musn't forget that the Asia-Pacific region is their largest trading partner," argued Karim Raslan, a Malaysian political analyst. "You do not neglect a part of the world which is your largest trading partner."

Of course, the fact that American investment and trade has flooded the region suggests that the United States is not being neglectful. But if the United States has to bail out every improvident nation to demonstrate "leadership," then that leadership isn't worth very much. After all, if spending 50 years defending most of the globe, funding every international aid organization, and promoting free international trade doesn't demonstrate

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American concern, nothing will. In fact, the Southeast Asians were just jealous that—at least until the Indonesian aid package—they hadn't benefited from the same subsidies as had Mexico.

And a loss of influence could be beneficial. Some Southeast Asians have been muttering that Washington's supposed lack of interest will spill over into the security field. Says Juwono Sudharsono, deputy governor of Indonesia's National Defence Institute: "There's a sense that it's going to be a much more Asia-centric picture in the security field." Which, given the collapse of hegemonic communism and the rise of allied powers like South Korea and Japan, makes sense. Washington no longer need defend everyone from everyone.

Unfortunately, Uncle Sam is addicted to wasting taxpayers' money. Economy-minded legislators should block further bailouts of individual nations. Lawmakers also need to terminate the executive's ability to misuse the Exchange Stabilization Fund, originally created in 1934 to support the value of the dollar, in cases like this. Otherwise Washington will find more irresponsible foreign debtors to bail out. □

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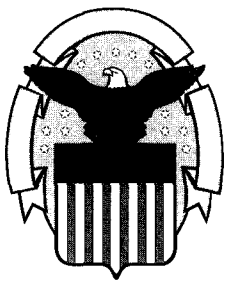

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THE FREEMAN
IDEAS ON LIBERTY

Let Property Settle Smoking Disputes

by Andrew I. Cohen

Public policy debates nowadays are often confused about what ought to count as a "public" policy. Injecting a healthy appeal to individual rights could help resolve disputes by showing just what ought to count as anyone's proper business. The antismoking hysteria gripping America is a case in point. Because smoking is allegedly so *bad*, regulators and busybodies get to tell others how, where, and when they may smoke. But *badness* is no argument when it comes to defining our freedom.

Your Loud Stereo

Imagine that you have an obscenely expensive, gratuitously overpowered stereo system. Suppose you have set up this system in your home out in the country. Your house is in a spot where you can play your stereo without bothering any neighbors. You live there all alone, and you play your system at a ridiculously loud volume, 24 hours each day.

Hearing specialists will tell you that this would be foolish. You would be jeopardizing your hearing in the upper ranges, and you very likely would go completely deaf in a few years. But you might not care. Perhaps you love the acoustic rapture you feel when listening to loud music.

In spite of your self-destructive behavior, no one can dispute your *right* to play your stereo in your own home. After all, it is your home and your hearing.

Suppose an acquaintance of yours is rather fussy about her hearing. She finds it difficult to put up with loud music, and she is especially intolerant of the type of music you like. But she frequently comes to your house for tea and (hollered) philosophic debate. One day, she asks you to lower the music.

If you were polite, you might lower the music. But remember, you're fond of the tunes at dangerously loud volumes. You (politely) refuse. "After all," you tell her, "you knew how loud I played my music from the moment you came in."

This does not satisfy her. "But I insist," she shouts over the music. "The surgeon general and numerous respected research labs have shown that any exposure to such painfully loud music can permanently damage hearing. You *have to* turn it down."

What should that "have to" mean? In a society marked by voluntarism and good will, that would be (at most) a request. In a society confused about what is properly private, that "have to" might take on a different, more forceful meaning.

So what should you do? If you value her company, you should turn down the music. But if the music is more important to you, you may ignore her demand. After all, it's your house.

And you tell her that.

Indignant, she storms out and petitions the County Board of Regulators, which then pass-

Andrew Cohen teaches philosophy at the University of Wisconsin, Stevens Point.

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es a law requiring you to lower the music or set aside "nonmusic" sections in your home. "But it's my house!" you proclaim. "People are exposed to the music only when they voluntarily come on to my property!" But it is to no avail. If you refuse, the government will fine you or throw you in jail.

Such a county board should be denounced for its intrusiveness. Its regulations violate your property rights in your home and give your friend the right to access your property on her terms. That is inconsistent with the principles of property rights. Those rights set out a sphere of freedom that allows individuals to live their lives as they see fit (provided they do not violate the similar rights of others).

From Loud Music to Smoke

Now watch how something mysterious happens to property rights when we switch from the sound in your space to the fumes in your space. Suddenly, property rights go out the window.

Political hostility to smoking began in full bluster in the early 1970s when radio and TV ads were closed off to tobacco companies and when smokers were moved to the backs of planes, trains, and buses. Today most states and hundreds of municipalities have enacted various regulations concerning smoking in "public" areas. These laws range from outright bans on smoking on public transportation to detailed ordinances specifying mandatory policies for offices, retail stores, and restaurants. The march to stamp out smoking has continued, with state attorneys general, under the watch of Congress and the president, negotiating a possible settlement with the tobacco industry.

The most widely cited reasons for regulating smoking are the obvious health concerns. We have heard the statistics about the dangers of smoking. No one can plausibly claim today that smoking is a harmless pastime. Smokers may say the decision is theirs alone (just as people voluntarily decide to go bungee jumping and skydiving.) But critics reply that smoking is not a purely private affair. A key issue now concerns the dangers to nonsmokers. Some studies estimate that 5,000 nonsmokers die each year of lung cancer from passive smoke. Other studies bandy about even larger numbers. The figure could be ten times higher when you consider heart disease, cancers, and other illnesses. (For the record, those studies are disputed by some independent analysts.)

We must grant that smoking is bad. We must also acknowledge that passive smoke is bad. It is not, however, the proper function of law to root out things because they are bad. Law is best confined to keeping people from violating one another's individual rights. Individuals do not have an automatic right of access to the private property of others.

Regulations and Social Virtues

Besides a concern about the proper scope of law, smoking regulations undermine two important foundations for voluntary relationships, one economic, the other social. Economically, regulations direct merchants' attentions away from customers and toward the demands of bureaucrats. That undermines the discipline a free market imposes, where merchants must satisfy customers or go out of business. Merchants must tune less to the signals customers give and more to the demands imposed by regulators.

Perhaps more important (and more fundamentally), a regulatory regime undermines the basis for voluntary social relationships. In a civil society, one can *request* that others accommodate your needs. In relationships defined by mutual concern and trust, people would (and perhaps should) voluntarily stop doing things others see as a nuisance. Mature adults in voluntary relationships do not need to be chaperoned by the state in matters of basic civility. Regulatory supervision undermines the authentic concern people can and should show one another on the way to developing meaningful relationships of all sorts. But smoking ordinances give individuals no choice but to do what regulators want them to do. They are deprived of the chance of expressing genuine concern for others.

Where individuals greet one another as equals, the give-and-take of ordinary human encounters can, over time, foster relationships

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where they learn to care about one another's needs. When regulations define their relationship in advance, they are as children on a vigilantly supervised playground. In such circumstances they have less reason to rise above the petty squabbles that maturity and concern for others should serve to resolve.

"Public" vs. "Private"

Besides undermining private virtues, smoking regulations distort a proper understanding of the distinction between "public" and "private" property. Antismoking ordinances purport to regulate smoking in "public" places but often usurp private property. (We have to be careful here because a lot hinges on who controls the areas being regulated.)

If a friend visits you in your home, your home is still your private property. If one hundred fifty of your friends come to visit, that does not change your home from private to "public" property. Nor, for that matter, does your property become "public" if you charge people to gain access. A restaurant, a taxi, or a mall are all just private places that are frequented by the public. Just because the public has access to someone's private property does not mean they may dictate the terms of access.

The only property legitimately called "public" is anything owned and operated by the government. And (at least for now) the government does not own everything. Regulators have no more business telling you what you may do in your indoor sports arena than they do dictating your conduct in your home. But when it comes to public property, the government can legitimately regulate up a storm.

This is not to suggest that private businesses should ignore the demands of a growing nonsmoking portion of the public. Wise business owners will, on their own, cater to nonsmoking customers. Witness Northwest Airlines' voluntary ban on smoking on all its flights in 1988. (This preceded the ban the government imposed on all domestic flights in 1989.) Numerous restaurants offer nonsmoking areas for their patrons. Hotels and motels have taken to offering nonsmoking rooms, and some hotels in larger cities have implemented nonsmoking floors. In a free society, if smokers worry that they are being shut out, other businesses would recognize market opportunities and open up "smokers only" establishments. More modestly, businesses might simply be sure always to set aside some areas for smokers. We can applaud (or denounce) any of these private policies; they all represent private businesses voluntarily filling market demand. But no matter what we think, we can never claim a *right* to implement a smoking policy on someone else's property.

We have no more right to legally impose smoking regulations than we have to march into people's homes and force them to do what we want. If other people on their own property are unharmed, we cannot legislate how loud a homeowner's stereo should be played (even if it hurts our ears when we visit) nor can we dictate what color the drapes should be (even if the pattern hurts our eyes) nor can we *insist* that the homeowner raise the heat (even if it's darn cold inside). We don't own someone else's home, nor do we own someone else's restaurant. In neither case do we have any rights regarding the owner's policies. *We don't have a right to be on someone else's property*. If we do not own the property we are standing on (or in), then we are there by the owner's permission. It is the owner who can stipulate what he will allow people to do on his property. If we do not like what we encounter, we can leave.

This issue is not how bad smoking is. The badness is assumed. Just because you are doing something bad does not mean that people have a right to stop you, even if that conduct hurts them. Not all harms are rights violations.

Some Thoughts on "Rights"

There is much talk of "rights" here, so let me close with a few remarks about this principle, which is central to classical liberal thought. These things, "rights": what are they? We might have a murky sense of what they are, but it is hard to pin down, because they are not physical things that you can measure or hold in your hand.

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Rights are principles, and there are many justifications for such principles. What justification we can give is still a topic of lively dispute among classical liberals and social theorists of all other stripes. However we cast the foundations of rights, they are claims: they are protected freedoms people legitimately have and can stand on or invoke to keep a space private and protected from others. What makes the notion of rights so powerful and so useful is that they help to resolve disputes among differently minded adults. People can have vastly differing conceptions of what counts as good, and yet they can still be in a position to agree on carving out certain spheres of freedom—*regardless of the moral value of the things people do with such rights*. That is what people so often lose sight of in disputes about alleged "vices." Identifying something as a vice is no argument for its illegality, because people should be left free to do what they wish provided doing so does not violate the rights of others. Rights enable people to be free to do as they wish without seeking the permission of others. They are a consequence of each person's having a life to define and live.

We should be on guard against misleading appeals regarding how good or bad certain activities are. From the standpoint of rights, it does not matter. Classical liberal thought tells us that people should be left free to define and live lives of their own, even if that means that they are left free to do things some people regard as evil or simply distasteful. The upshot of letting rights limit government action is a system of political liberty where people own themselves, and their lives, and may aspire to heights (or depths) that only they can dream of in unfettered circumstances. □

THE FREEMAN
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Government Versus the Environment

by Russell Madden

When the subject is the environment, the public perception is that a resource of such importance can only be adequately safeguarded by the benevolent, all-encompassing hands of the government. Whether that protection comes in the guise of the Environmental Protection Agency, the Forest Service, the Park Service, the Bureau of Land Management, or any of their variations at the federal, state, and local levels, many citizens fear that leaving environmental (that is, property) stewardship in the hands of "big business" or "selfish" individuals would result in wholesale destruction of our land, water, and air.

The zeal with which our legal system handles alleged enemies of the environment grows ever stronger. Individuals are imprisoned for dumping dirt on their own land. Entrepreneurs—even with local and state per-

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mits in hand—are brought to trial for violating the decrees of the Army Corps of Engineers by creating new lakes and wildlife preserves. Private forestland is declared off-limits to individuals seeking to retire to and build on their own property; selling their own trees will land them in jail.

In their efforts to protect the ecology, government agents prohibit development along certain seashores, seek to limit usage of private property that is home to endangered species, to forbid lumber harvesting on "public" lands harboring spotted owls, and to bring more and more wilderness under the protective wing of our dedicated public servants.

Yet, as in many other areas of our society, government reveals its contradictions by doing things that harm our environment far more than anything attributable to business or individual citizens. Amazingly, though, the ecological headaches engendered by these darker policies do not dim the luster of governmental activism. Indeed, as is typical of the harm engendered by the state's ignorance, ineptitude, and intolerance, the resultant problems lead to even more strident calls for further intervention. This seemingly endless cycle only increases the costs we all pay for such bad programs, not only monetarily but in diminished personal freedom and erosion of respect for our legal and governing system.

Helping a Few, Harming Many

Most of the damage the state does to our environment comes when it seeks to help a particular segment of the population at the expense of the rest. With concentrated benefits and diffused costs masquerading under the mask of "the public good," these efforts have created many of the most egregious examples of abuse.

• Water usage has proven to be a favorite excuse offered for state intervention. Farmers benefit from subsidies designed to lower their costs for irrigating their crops. As a result, areas of marginal agricultural potential (especially in the west) are brought under production. Fragile lands are exploited that might otherwise lie fallow. Not only does the resultant overproduction of some commodities lower the prices farmers get for them, but the increased acreage put into crops leads to an acceleration of soil erosion. Subsidized crop insurance further exacerbates the situation.

• Nonfarm citizens also have their water costs subsidized by people in other parts of the country. Dam construction and artificial waterways designed to transport that water enable people to populate such arid regions as Arizona and southern California. Not only does that lead to an explosion in population in those and other areas, natural lands are flooded for reservoirs, water tables are lowered to quench the thirst of newcomers, and water shortages occur during times of lowered rainfall. Rather than letting supply and demand determine the proper usage of water, the government decides how this resource will be distributed. Those dams also provide hydroelectricity below cost, again encouraging settlement of these areas at a higher level than would otherwise occur.

• Where there is too *much* water the government again intervenes. Swamps have been drained (in Florida, for example) to encourage development. Now those same areas suffer a dearth of water, endangering the habitat of alligators and various species of birds.

• Even while prohibiting the cutting of trees in some forests, the government subsidizes the construction of access roads into other so-called public lands. This leads to an increase in the harvesting of lumber from areas many environmentalists would like to preserve. Wildlife habitat is also threatened.

• In a similar vein, state-owned rangelands are overgrazed by cattlemen enjoying lower-than-market rates to rent the land. In another example of the "tragedy of the commons" (the overuse of a resource because of the denial of individual ownership), overgrazing also strains local water supplies and contributes to environmental degradation.

• While the government is lauded by some and condemned by others for reintroducing wolves into the west, few mention that it was government bounties on these predators (as well as others) that contributed to their decline in the first place.

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• Though it prohibits development of some "sensitive" rivers, seashores, and islands, the government encourages building in other such places. On flood plains and along coastlines, homeowners proliferate despite the dangers of recurrent flooding or storm damage. Why? Either they purchase below-market flood insurance or have their property losses covered by a "compassionate" government's disaster relief that diminishes the cost of choosing to settle in such risky environments. Many of these homeowners rebuild repeatedly, all at the expense of their fellow citizens.

• Zoning and land-use regulations designed to preserve wetlands and other wildlife habitat diminish the incentive of landowners to convert portions of their property to such uses. Rather than lose control of their property to stifling edicts, many citizens will choose instead to "sterilize" their land and not convert it to recreational or conservational use.

• Highway construction paid for by the government places roads through woodlands and other habitat regardless of the wishes of the property owners (who are confronted by the use of eminent domain) and regardless of whether it makes economic sense. By also paying for infrastructure costs, the state encourages development in places where it might not otherwise occur. In Brazil, tax incentives and state-subsidized road construction have contributed to the very rain forest destruction so many environmentalists decry—even as they call for more governmental controls.

• Subsidized freeways contribute to overuse that leads to massive traffic jams and more car exhaust in the atmosphere as autos creep along toward their destinations.

• Through excessive regulation and the prohibition of such technology as breeder reactors, the government has effectively killed new nuclear-power plant construction in this country, although nuclear power is safer and pollutes less than many traditional power sources, including coal and natural gas.

• By reducing the wealth of its citizens through taxation, inflation, and regulation, the government makes it more difficult to deal with the legitimate environmental problems we do face. Wealthier societies have the resources to handle such difficulties while poorer ones do not.

Ultimately, it is the state's violation of property rights that leads to many of the environmental ills laid at the feet of private citizens and businesses. The greatest ecological disasters in the world have occurred in those countries where property rights did not exist. (In the former Soviet Union and East Germany, for example, the devastation reached horrific heights.) Through subsidies, regulations, zoning, and eminent domain, the state encourages behavior that increases pressures on the environment.

There is nothing inherently wrong with settling in Arizona, with building one's home on a seashore, or with constructing highways. But it *is* wrong to force others to share the costs of doing so. A person's *right* to his property is inviolable. Whenever the government encourages and sanctions policies that steal that property—whether directly or indirectly—it acts immorally. In terms of environmental protection, the state is not exempt from the law of unintended consequences. Even when acting from good intentions, the government will cause problems where none existed or permit the continuation of problems that adherence to property rights would end.

In reality, the issue is not "the government versus the environment" but rather the government versus *individuals and their rights*. Only destruction can result from failing to understand that. □

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THE FREEMAN
IDEAS ON LIBERTY

Taxation by Other Means

by Max Schulz

Congress's latest abominable action in the name of tax relief—the tax and budget agreement—was born midst a debate over money. That is, the arguments about taxes, pro and con, focused solely on the money due to the federal government each April 15. This shows the shortsightedness of the political class in determining the laws under which you and I must live.

Whether haggling over the details of estate taxes, sin taxes, or capital gains taxes—not to mention the income tax—denizens of Washington, D.C., underestimate the average American's tax burden. Discussion at each end of Pennsylvania Avenue assumes those are the only levies he pays in exchange for the government he receives. In reality, state and local taxes (especially property and sales taxes) add to our crushing tax obligations.

But even factoring in these charges, there are still other ways government taxes us. We would do well to remember—especially when politicians of all stripes grandstand on "tax relief"—that many (if not most) activities of government impose onerous burdens. They aren't direct payments to a government treasury, but they are nonetheless taxes—on our time, our labor, our freedom.

Take the IRS code itself. The government requires citizens to conduct its tax collection, making people bookkeepers for the federal leviathan. Even the simplest 1040 form requires time-consuming labor without hint of remuneration—a classic unfunded mandate. And the sheer complexity of a tax code that runs to thousands of pages means that Americans are forced to spend untold time and money to pay their annual tribute.

A slew of such implicit taxes, kept off the government's balance sheet, are to be found in every facet of daily life:

• **Regulations.** The rules government mandates for us are hidden taxes. A law, after all, is a tax on behavior. The government is as likely to overtax through laws and regulations as it is through more traditional levies on our paychecks.

These hidden taxes are insidious precisely because we don't always notice them. They don't show up as actual payments to the Treasury. Yet they still are costs we incur to do the government's bidding. The shop owner who must install a ramp to comply with the Americans With Disabilities Act pays a real price.

• **The legal system**. Our out-of-control tort system allows people to play a roulette game of legalized extortion. The tax? Our constant exposure to the legal harassment of frivolous lawsuits. Not only does government fail to protect businesses and individuals from the truly frivolous suits, but the vague and inexact laws Congress passes often encourage them. Moreover, we are taxed in the marketplace, where the problems of the tort system translate into higher prices for nearly all products and services.

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• **Price supports.** Price-support policies on sugar and other agricultural products drive up the prices we pay for virtually every meal. Citizens pay the tax for this corporate welfare at the cash register.

• **The Postal Service.** The Postal Service constantly congratulates itself for taking no federal tax money. Its operating costs aren't figured into the annual budget, but are covered by revenue from the sale of stamps. So where's the tax? In the artificially high price of stamps. Those self-congratulatory claims are misleading because the government reserves to the Postal Service a monopoly on first-class mail delivery. As a result, the price we pay for postage is far higher than it likely would be in an unfettered market.

• **The monetary system.** Washington also reserves to itself the monopoly on currency: competing private currencies are illegal. While this may seem esoteric, what it means is that we have no choice but to use the government's money. The least government can do is guarantee a stable value of money, as a gold standard would accomplish. It doesn't. Inflation—and anxiety about future inflation—can be a deadly hidden tax on savings and investment, robbing people decades down the road.

We suffer many other taxes in our everyday endeavors. We need licenses to drive, licenses to operate many kinds of business, and permits to build on our own property. Each usually involves a fee in addition to the hassle of petitioning the appropriate authority for approval. When you have to take time off from work to stand in line to pay the government for a stamped slip of paper in order to continue—well, working—you are being taxed on several levels.

A tax isn't necessarily money we give the government. Rather, a tax is a way for the government to control us. Taxes of all types make us the servants of the state, both when we send tribute to Washington or when we work to satisfy regulatory mandates.

Taxes, it is said, are the price we pay to live in an orderly society. Fair enough. Just don't forget that this "price" includes far more than the coins we drop in Uncle Sam's coffers. □

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THE FREEMAN
IDEAS ON LIBERTY

The Non-Absurdity of Natural Law

by Wendy McElroy

There is an immense difference between disagreeing with a theory and considering it to be absurd. The former can be a respectful process that encourages discussion; the latter implies that anyone who holds the theory must be a fool. In vernacular language, the difference can be expressed as, "Is the other guy wrong, or is he just stupid?"

Natural law has always had vigorous opponents who believed, with the early nineteenth-century English philosopher Jeremy Bentham, that the theory was nonsense upon stilts. Before the twentieth century, the accusation of absurdity was usually hurled by people hostile to individualism, or at least by those who wished to assign a higher priority to some other social consideration, such as utilitarianism. Sir Robert Filmer's *Patriarcha*, a defense of the divine right of kings, critiqued the natural-law theory that existed prior to 1640. Within the individualist tradition itself, however, natural law remained a prevailing and well-regarded theory.

Then in the late nineteenth and early twentieth centuries, natural-law theory came under sustained and derisive attack from individualists. The situation was especially contentious in the United States, where individualists who espoused what Benjamin Tucker called "society by contract" began to deride natural rights as being patently absurd.[1] The leading wedge of ridicule was Tucker's individualist-anarchist periodical *Liberty* (1881–1907), which was key in transmitting and preserving individualist ideas in post-Civil War America. *Liberty*, for example, was one of the main conduits of Herbert Spencer's thought to America.

Unfortunately for natural-law advocates, contributors to *Liberty* also translated into English the thought of Johann Kasper Schmidt—more popularly known as Max Stirner—who believed natural rights were "ghosts" in men's minds. The spread of Stirnerite egoism within American individualist ranks emanated from Stirner's pivotal work on law, property, and the state, *The Ego and His Own*. The debate that ensued centered on two issues: first, whether egoism or natural rights formed the proper basis of radical individualist theory, and second, whether those who advocated rights were mad.

By contrast, many contemporary individualists find it possible to disagree with natural rights without declaring them to be nonsensical. For example, David Friedman's latest book, *Hidden Order: The Economics of Everyday Life*, argues for freedom on purely economic, rather than moral or natural-law grounds. Rather than causing a schism, however, Friedman's different approach offers valuable insights into the tradition. In *Human Action*, the Austrian economist Ludwig von Mises goes one step farther and explicitly argues against natural law. But he presents a reasoned argument. Although he is a staunch

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opponent, he is not a detractor—a difference that may explain why so many natural-rights advocates consider themselves Misesians.

I wish to argue for the non-absurdity of natural law and for the need to tolerate any approach to freedom that is peaceful. But, to do so, it is necessary to first explain what natural-law theory is.

The Theory of Natural Law

Although it consists of only two words, the term "natural law" has long been a battlefield of semantics. The simplest term to grapple with is "law." It is not used in a legal sense, as in legislation. Rather it refers to a principle, much as you might speak of the laws of physics.

The other word, "natural," has a more complicated history. The first question to ask is, natural as opposed to what? This particular question has occasioned great debate within the tradition of natural law. Some argue that the word is used as a term of distinction from "supernatural," or the will of God. Others, such as Thomas Aquinas and those in the Thomistic tradition, interpret natural law in a somewhat more theistic context. Such great ambiguity exists in the term "natural" that long debate has raged over whether there is one tradition or many traditions of natural law.

As Mises explains in *Human Action*, "From the notion of natural law some people deduce the justice of the institution of private property in the means of production. Other people resort to natural law for the justification of the abolition of private property in the means of production." In a compelling critique, Mises claims, "There is . . . no . . . perennial standard of what is just and what is unjust. Nature is alien to the idea of right and wrong. 'Thou shalt not kill' is certainly not part of natural law. The characteristic feature of natural conditions is that one animal is intent upon killing other animals."

Mises's point is well taken if it is directed at the more extreme traditions of natural-law theory, which do cling, in Mises's words, "to the doctrine that what is right and what is wrong is established from the dawn of the remotest ages and for eternity." Some natural-law theorists go so far as to say that values are a category of fact.

But there is a more flexible interpretation that better withstands Mises's criticism. It makes the far more reasonable statement that human values should be grounded in, or based upon facts, and discovered through a process of reason. This version does not extend its theory to include animals other than human beings. It makes no comment on, again Mises's words, "the many species [that] cannot preserve their own life except by killing others." It comments only on *human* nature and assumes that as human beings interact some concept of right and wrong inevitably evolves.

This contention is based partly on history. Even the most primitive of human cultures evolved some standard of right and wrong behavior. Although "Thou shalt not kill" may not be writ in nature, every society has prohibited murder. Indeed, one of the few points on which all societies agree is that the killing of another human being is presumed to be wrong unless somehow justified.

Equally, some concept of right and wrong seems to evolve naturally within the psychology of individuals. A child who is hit for no reason has an automatic reaction to the effect: "He shouldn't have done that." He feels wronged. This childlike response may be crude and perhaps merely an emotional one. But it shows that considering the right and wrong of actions is, on some level, a human response to circumstances.

In its simplest statement, then, the more flexible form of natural law is an attempt to ground human values in the facts of reality and of human nature. But given what we know of those facts, is it possible to reason out a code of behavior that maximizes man's well-being?

Classical liberalism's answer, which emerged in the seventeenth century through the political analysis of John Locke, is the concept of natural rights—rights being principles of how to behave toward others. Such principles derive from the facts of human nature, and men observe them because rights are conducive to their own well-being. Consider your chances for happiness within soci-

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ety. Certainly happiness is a personal matter that cannot be divorced from the actions you take on a purely individual, nonsocietal level. But it is valid to ask, "Are you more likely to achieve happiness in a violent totalitarian society or in a society that respects your right to peacefully interact with others?"

Approaching the same point from a different angle, consider the question: Why is it wrong to initiate force? The advantages of violating rights are obvious. You can steal money rather than work hard to obtain it; you can eliminate people you find disagreeable. The advantages of respecting rights may not be as clear. In many cases, respecting rights seems to involve sacrificing self-interest. The onus of proof seems to be on the advocate of natural law to explain why rights are in your self-interest.

Return to the question of whether a peaceful society promotes happiness more than a Hobbesian one. Answering this question requires a theory of how society relates to happiness and why life in society is preferable to dwelling alone on a desert island. After all, a desert island offers absolutely unbridled individual freedom. In society, there is always the threat of violence. Why associate with people and run such a risk?

The answer is clear: because association offers tremendous benefits, including friendship, expanded knowledge, a division of labor, and romantic love. Society can maximize your choices if only because many of your decisions, and some of the most important ones, require the presence of other people, for example, the decision to have a child. Yet you can imagine a society from which you would gladly flee into solitude—to name one, a plantation community in which you were a field slave. To the extent a society relies on force, it minimizes choices and becomes a disadvantage. Seen through this lens, rights set a peaceful context that maximizes choice and thus maximizes the chances of individuals attaining happiness within society.

The Charge of Absurdity

Having sketched a version of natural-law theory, I want to leap over the process of defending it—which is not my purpose—and address instead the consequences of contemptuously dismissing natural rights as absurd. Consider an incident that occurred within the nineteenth-century individualist movement in America, specifically, in Benjamin Tucker's *Liberty*.

The March 6, 1886, issue of *Liberty* printed a watershed article by James L. Walker (using the pen name Tak Kak) entitled "What is Justice?," which advanced the Stirnerite egoist perspective. In a later article in *Liberty* (April 9, 1887), Tak Kak explicitly attacked the notion that people should abide by principles. Indeed, he claimed, "A declaration of rights is often the pitiful expression of a lack of power. . . . The devotee of a fixed idea is mad. He either runs amuck, or cowers as mesmerized by the idea."

Tak Kak went on the attack, not only in his arguments but in his attitude. For example, he offered sharp commentary on an earlier article in *Liberty* penned by the natural-rights advocate Gertrude B. Kelly. Kelly—in the belief that all men are "brothers"—had cried out against acts of brutality committed by white American workers against Chinese workers who had been "imported" as cheap labor. Tak Kak provocatively replied that the Chinese were fitted by nature and heredity to remain slaves. He directly accused Kelly of being a victim of the "fixed idea" that there was a common humanity among the races.

The natural-rights side of the debate (Gertrude Kelly was joined by John F. Kelly, Sidney H. Morse, and William J. Lloyd) accused the egoist side (Tak Kak, Tucker, George Schumm) of destroying not only natural rights but also the individualist criticism of government.

Shortly thereafter, John F. Kelly (Gertrude's brother) wrote Tucker that he would no longer distribute *Liberty*. Kelly never again contributed to the publication. His sister also withdrew from its pages, as did Sidney H. Morse. With these losses, the natural-rights position was only weakly represented in future issues. As a result, the diminutive individualist movement shrank further, and muted some of its most passionate voices. The schism seemed to result not so much from

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disagreements in theory as from an inability to discuss those differences without descending into ad hominem attacks.

Are Egoism and Natural-Rights Theory Irreconcilable?

The main loss from accusing an honorable opponent of being not only wrong but also a fool is the debate that does not occur. If an issue is hotly debated between vigorous minds, the participants will surely learn much from one another.

The egoists and natural-rights advocates in *Liberty* agreed on more than they realized or, at least, on more than they were willing to admit. They agreed, for instance, on a key theoretical point: namely, human beings act in their own self-interest. (Oddly, the Stirnerite egoists never considered that statement of fact to be a "fixed idea.") Even John F. Kelly acknowledged the primacy of self-interest when he wrote in *Liberty*, "If we regard . . . all forces pushing us to action as pleasures,—relief from pain being classed as a pleasure,—and all those tending to make us abstain as pains,—deprivation of pleasure being counted a pain,—then it is evident that we act egoistically . . . since we only act because the pleasures exceed the pains."

With the natural-law side making such concessions, it is difficult to believe that both sides could not have come to a common understanding. Consider one issue: the role of rights in the act of contracting. The egoists believed they were reducing the concept of rights to its proper place as an artificial, but useful, construct with which to organize society. Tucker continued to believe in what he called "society by contract," but he came to view rights as the byproducts of contracts between individuals, not as entities existing on their own. Writing in his newspaper, he suggested that rights were "a tacit agreement or understanding between human beings . . . not to trespass upon each other's individualism, the motive of this agreement being the purely egoist desire of each for the peaceful preservation of his own individuality."

John Kelly attacked Tucker's theory as self-contradictory. Kelly, responding in *Liberty*, wrote that "the binding effect of a particular contract can not be due to the contract itself." Pointing out what he believed to be the major philosophical flaw of Stirnerite egoism, he contended that a contract presupposes a moral system—for a contract is nothing more than a voluntary exchange of what is mine for what is yours. Embedded in the very idea of contract, therefore, is the concept of voluntary versus forced exchange, and the concept of property. Contracts make sense only in the context of rights. To claim that rights spring from contract is to invert the logical order.

A full and dispassionate debate on this point would have been a fascinating chapter in American individualism. It never occurred. Each side became so bitter that productive discussion became impossible. And so the fledgling individualist movement splintered and shrank. Yet the disastrous controversy was avoidable. After all, Tucker managed to remain civil to British individualists such as Wordsworth Donisthorpe, with whom he conducted an extended debate over anarchism versus limited government. But then that debate dealt with arguments, rather than personality.

Debate and passionate discussion are part of the intellectual vigor that draws the best minds of an age to a movement or to an issue. Intolerance and dogma are part of what drives those same minds away. Allow me to put in a good word for intellectual good will. □

1. Although there is a technical distinction between natural law theory and natural rights, for the purposes of this article the terms are interchangeable.

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THE FREEMAN
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Reading the Second Amendment

by Sheldon Richman

> "A well regulated militia being necessary to the security of a free state, the right of the people to keep and bear arms shall not be infringed."
> —SECOND AMENDMENT

Is this sentence so hard to understand? Apparently so. Even some of its defenders don't like how it is worded because it allegedly breeds misunderstanding.

But the Second Amendment of the Bill of Rights is indeed a well-crafted sentence. By that I mean that its syntax permits only one reasonable interpretation of the authors' meaning, namely, that the people's individual right to be armed ought to be respected and that the resulting armed populace will be secure against tyranny, invasion, and crime. Someone completely ignorant of the eighteenth-century American political debates but familiar with the English language should be able to make out the meaning easily.

My concern is not to demonstrate that what the amendment says is good policy, only that it says what it says. No other fair reading is possible.

The Competing Interpretation

Before proceeding, let's understand the competing interpretation. As the American Civil Liberties Union of Southern California put it, "The original intent of the Second Amendment was to protect the right of states to maintain militias." Dennis Henigan of Handgun Control, Inc., says the amendment is "about the distribution of military power in a society between the federal government and the states. That's all they [the Framers] were talking about." As he put it elsewhere, "The Second Amendment guaranteed the right of the people to be armed *as part of* a 'well regulated' militia, ensuring that the arming of the state militia not depend on the whim of the central government" [emphasis added].

This interpretation is diametrically opposed to the view that says the amendment affirms the right of private individuals to have firearms. The ACLU, HCI, and others reject this, arguing that the amendment only affirms the right of the states to maintain militias or, today, the National Guard. These competing interpretations can't both be right.

The first problem with the militia interpretation is that the amendment speaks of a right and, of course, the amendment appears in the Bill of Rights. (Powers with respect to the militia are enumerated in Articles I and II of the Constitution.) No other amendment of the original ten speaks of the States having rights. Nowhere, moreover, are rights recognized for government (which in the Framers' view is

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the servant) but denied to the people (the masters). Henigan and company are in the untenable position of arguing that while the Framers used the term "the people" to mean individuals in the First (the right to assemble), Fourth (the right to be secure in persons, houses, papers, and effects), Ninth (unenumerated rights), and Tenth (reserved powers) Amendments, they suddenly used the same term to mean "the States" in the Second. That makes no sense.

More important, the diction and syntax of the amendment contradict Henigan's argument. If the Framers meant to say that the States have a right to organize militias or that only people who are members of the militia have a right to guns, why would they say, "the right of the people to keep and bear arms shall not be infringed"? The Framers were intelligent men with a good grasp of the language. As we can see from the Tenth Amendment, they were capable of saying "States" when they meant States and "people" when they meant people. They could have said, "The right of the States to organize and arm militias shall not be infringed," though that would have contradicted Article I, Section 8, which delegated that power to the Congress. (Roger Sherman proposed such language, but it was rejected.) Or, they could have written, "The right of members of the state militia to keep and bear arms shall not be infringed," though that would have contradicted Article I, Section 9, which forbids the States to "keep Troops . . . in time of Peace." They didn't write it that way. They wrote "the people," without qualification. (The Supreme Court said in the 1990 case *U.S. v. Verdugo-Urquidez* that "the people" has the same meaning—individuals—throughout the Bill of Rights.)

But, say the gun controllers, what of that opening phrase, "A well regulated militia being necessary to the security of a free state"? Here's where we have to do some syntactical analysis. James Madison's original draft reversed the order of the amendment: "The right of the people to keep and bear arms shall not be infringed; a well armed and well regulated militia being the best security of a free country." Perhaps this version makes Madison's thought more clear. His sentence implies that the way to achieve the well-armed and well-regulated militia that is necessary to the security of a free state is to recognize the right of people to own guns. In other words, without the individual freedom to own and carry arms, there can be no militia. As to the term "well regulated," it does not refer to government regulation. This can be seen in Federalist 29, where Alexander Hamilton wrote that a militia acquired "the degree of perfection which would entitle them to the character of a well regulated militia" by going "through military exercises and evolutions, as often as might be necessary."

What the Syntax Tells Us

How do we know that the "well regulated militia" is defined in terms of an armed populace and not vice versa? The syntax of the sentence tells us. Madison and his colleagues in the House of Representatives chose to put the militia reference into a dependent phrase. They picked the weakest possible construction by using the participle "being" instead of writing, say, "Since a well regulated militia is necessary. . . ." Their syntax keeps the militia idea from stealing the thunder of what is to come later in the sentence. Moreover, the weak form indicates that the need for a militia was offered not as a reason (or condition) for prohibiting infringement of the stated right but rather as the reason for enumerating the right in the Bill of Rights. (It could have been left implicit in the Ninth Amendment, which affirms unenumerated rights.)

All of this indicates the highly dependent and secondary status of the phrase. Dependent on what? The main, independent clause, which emphatically and unequivocally declares that the people's right to have guns "shall not be infringed." (Note: the amendment *presupposes* the right; it doesn't grant it.)

Let's go at this from another direction. Imagine that a Borkian inkblot covers the words "well regulated militia." All we have is: "A [inkblot] being necessary to the security of a free state, the right of the people to keep and bear arms shall not be infringed." To make an intelligent guess about the obscured words,

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we would have to reason from the independent clause back to the dependent phrase. We would know intuitively that the missing words must be consistent with the people having the right to keep and bear arms. In fact, anything else would be patently ridiculous. Try this: "A well-regulated professional standing army (or National Guard) being necessary to the security of a free state, the right of the people to keep and bear arms shall not be infringed." That sentence would bewilder any honest reader. He'd ask why such unlike elements were combined in one sentence. It makes no sense. It's a non sequitur.

Imagine the deliberations of the Committee of Eleven, the group of House members to which Madison's proposed bill of rights was referred. Assume that one member says, "We should have an amendment addressing the fact that the way to achieve the well-regulated militia that is necessary to the security of a free state is for the national government to respect the right of the States to organize and arm militias." "No," replies another member. "The amendment should reflect the fact that the way to achieve the well-regulated militia that is necessary to the security of a free state is for the government to respect the people's right to bear arms." If both members were told to turn their declarative sentences into the imperative form appropriate to a bill of rights, which one would have come up with the language that became the Second Amendment? The question answers itself.

The Committee of Eleven reversed the elements of Madison's amendment. But that, of course, did not change the meaning, only the emphasis. In fact, the reversal made it a better sentence for the Bill of Rights. As adopted, the amendment begins by quickly putting on the record the most important reason for its inclusion in the Bill of Rights but without dwelling on the matter; that's what the weak participle, "being," accomplishes. The sentence then moves on to the main event: "the right of the people to keep and bear arms." The Framers correctly intuited that in a Bill of Rights, the last thing the reader should have ringing in his mind's ear is the absolute prohibition on infringement of the natural right to own guns.

I am not suggesting that the Framers said explicitly that the militia reference should go into a dependent participial phrase so that future readers would know that it takes its meaning from the independent clause. They didn't need to do that. To be fluent in English means that one intuits the correct syntax for the occasion and purpose at hand. Much knowledge of a language is tacit. We have to assume that the Framers knew what they were saying.

What Language Experts Say

This analysis is seconded by two professional grammarians and usage experts. In 1991, author J. Neil Schulman submitted the text of the Second Amendment to A. C. Brocki, editorial coordinator of the Office of Instruction of the Los Angeles Unified School District and a former senior editor for Houghton Mifflin, and Roy Copperud, now deceased, the author of several well-regarded usage books and a member of the *American Heritage Dictionary* usage panel. Brocki and Copperud told Schulman that the right recognized in the amendment is unconditional and unrestricted as to who possesses it.

Asked if the amendment could be interpreted to mean that only the militia had the right, Brocki replied, "No, I can't see that." According to Copperud, "The sentence does not restrict the right to keep and bear arms, nor does it state or imply possession of the right elsewhere or by others than the people." As to the relation of the militia to the people, Schulman paraphrased Brocki as saying, "The sentence means that the people *are* the militia, and that the people have the right which is mentioned." On this point, Copperud, who was sympathetic to gun control, nevertheless said, "The right to keep and bear arms is asserted as essential for maintaining the militia."

It is also important to realize that, as a matter of logic, the opening phrase does not limit the main clause. As the legal scholar and philosopher Stephen Halbrook has argued, although part one of the amendment implies part two, it does not follow that if part one doesn't obtain, part two is null and void. The sentence "The earth being flat, the right of the

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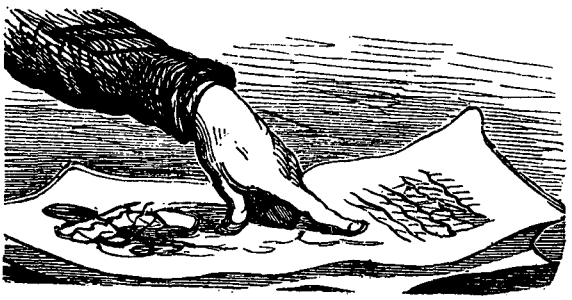
people to avoid ocean travel shall not be infringed" does not imply that if the earth is round, people may be compelled to sail. The Framers would not have implied that a right can properly be infringed; to call something a right is to say that no infringement is proper. As another philosopher and legal scholar, Roger Pilon, has written, the amendment implies that the need for a militia is a sufficient but not a necessary condition for forbidding infringement of the right to have firearms. The sentence also tells us that an armed populace is a necessary condition for a well-regulated militia.

Superfluous Commas

A word about punctuation: most reproductions of the Second Amendment contain a plethora of commas: "A well regulated militia, being necessary to the security of a free State, the right of the people to keep and bear Arms, shall not be infringed." But according to the American Law Division of the Library of Congress, this is not how the amendment was punctuated in the version adopted by Congress in 1789 and ratified by the States. That version contained only one comma, after the word *state* which, by the way, was not uppercased in the original, indicating a generic political entity as opposed to the particular States of the Union. If the superfluous commas have confused people about the amendment's meaning, that cause of confusion is now removed.

One need not resort to historical materials to interpret the Second Amendment, because it is all there in the text. Nevertheless, it is appropriate to point out that history supports, and in no way contradicts, that reading. Gun ownership was ubiquitous in eighteenth-century America, and the Founding Fathers repeatedly acknowledged the importance of an armed citizenry. They also stated over and over that the militia is, as George Mason, the acknowledged father of the Bill of Rights, put it, "the whole people." Madison himself, in Federalist 46, sought to assuage the fears of the American people during the ratification debate by noting that an abusive standing army "would be opposed [by] a militia amounting to near half a million of citizens with arms in their hands." That would have comprised the entire free adult male population at the time. There's no question that at the center of the American people's tacit ideology was the principle that, ultimately, they could not delegate the right of self-defense to anyone else and thus they were responsible for their own safety.

Perhaps the deterioration of American education is illustrated by the high correlation between the number of years a person has attended school and his inability to understand the words "the right of the people to keep and bear arms shall not be infringed." It is more likely, though, that those who interpret the Second Amendment to preclude an individual right to own guns are driven by their political agenda. Whichever the case, they do themselves no credit when they tell us that a simple, elegant sentence means the opposite of what it clearly says. □



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THE FREEMAN
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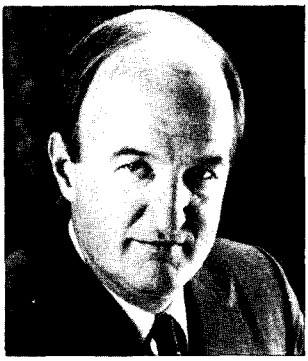

Vienna and Chicago: A Tale of Two Schools

"Austrian economics has been important to the development of modern economics, but its role in current practice is much diminished."
—SHERWIN ROSEN, University of Chicago[1]

Since its inception, the Foundation for Economic Education has been associated with two free-market schools, the Austrian school of Ludwig von Mises and, to a lesser extent, the Chicago school of Milton Friedman. Mises, after leaving Vienna for New York City, was closely involved with Leonard Read, FEE's founder. He spoke frequently at FEE's headquarters in Irvington-on-Hudson, and wrote regularly for *The Freeman.*

Read also developed a relationship with Friedman, who along with University of Chicago colleague George Stigler, wrote one of FEE's earliest publications. "Roofs or Ceilings?," published in September 1946, contended that postwar rent controls were counterproductive and should be removed. The FEE pamphlet was highly controversial at the time and was attacked on both sides of the political spectrum. Ayn Rand labeled the pamphlet "collectivist propaganda" and "the most pernicious thing ever issued by an avowedly conservative organization" because the economists favored lifting rent controls on practical, humanitarian grounds, not in defense of "the inalienable right of landlords and property owners."[2]

In a highly negative review in the *American Economic Review*, Robert Bangs assailed Friedman and Stigler, declaring, "Removal of rent controls now would not solve the housing problem, but it could easily contribute to a worsening inequality."[3]

Both the Austrian and Chicago schools of free-market economics were decidedly unpopular at the beginning of the postwar period, but now, a generation later, their views are represented in almost all textbooks and economics departments.

Why Has the Chicago School Gained So Much Influence?

The Chicago school, led by Milton Friedman, has especially gained recognition among professional economists. Followers of the Chicago school have won a dozen Nobel Prizes in economics since the award's inception in 1969.

Why has the Chicago school been more successful than the Austrian school? Both favor private enterprise, low taxes, minimal government, free markets, and sound money.

Dr. Skousen is an economist at Rollins College, Department of Economics, Winter Park, Florida 32789, a Forbes *columnist, and editor of* Forecasts & Strategies. *He is also the author of* Economics on Trial *(Irwin, 1993), a review of the top ten textbooks in economics. He is currently working on his own textbook,* Economic Logic.

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Although differing on methodology and occasionally on policy (e.g., the Austrians support either free banking or a gold standard while the Chicago monetarists advocate a controlled fiat money policy), they have more in common than not. Both Mises and Friedman were founding members of the Mont Pelerin Society. It is too bad that the Misesians and the Friedmanites usually see one another's philosophies as competitive rather than complementary.

The Advantages of Empirical Work

Historically, Friedman and his followers have taken a different road from the Austrians. They stress quantitative empirical work to test their theories. They also published more of their findings in the professional journals and with well-known university presses. They see themselves as inside the profession. The results were so remarkable that they gradually caught the attention of the rest of the discipline. Take, for example, Milton Friedman's (coauthored with Anna J. Schwartz) monumental *Monetary History of the United States, 1867-1960*, a study sponsored by the National Bureau of Economic Research and published by Princeton University Press in 1963. With meticulous research, he demonstrated how the Federal Reserve allowed the money supply to contract by a third during 1929-33. His statistical work gave powerful credence to the idea that it was government, not free-enterprise capitalism, that caused the Great Depression. Friedman's quantitative study did more to restore faith in free enterprise than a thousand sermons on the virtues of economic liberty. His applied approach was far more effective in destroying the basic tenets of Keynesianism than philosophical tomes. For these contributions to economics, Friedman was awarded the Nobel Prize in 1976.

Friedman's empirical application of his free-market views has had a wide influence on think tanks and practical politics. The Chilean economic miracle (controlling inflation, cutting taxes, privatizing Social Security) is largely a result of the policy recommendations of the Chicago Boys, economists who studied under Friedman. The Cato Institute's (and other free-market think tanks) focus on case studies is an outgrowth of Friedman's research methods.

The Austrians Take Another Path

The Austrians, on the other hand, do not believe theory can be derived or tested empirically. Mises's method, praxeology, deduced economic principles logically from the axiom that human beings act—that is, attempt to improve their circumstances. Austrian economists prefer to state their theories verbally rather than mathematically. (Mises declined to use even graphs on methodological grounds.) Hayek, despite differences over method with Mises, warned that economics should not mimic physics. He designed a graphic presentation of the Austrian theory of the business cycle, but offered no statistical evidence. Henry Hazlitt dissected Keynes's *General Theory* with deft and substantive arguments, but without quantitative analysis, his *Failure of the "New Economics"* (D. Van Nostrand, 1959) fell on deaf ears. Israel Kirzner established an Austrian center at New York University, but has limited his analysis to high theory. Murray Rothbard used historical data to illustrate the Austrian theory of the business cycle as applied to *America's Great Depression* (D. Van Nostrand, 1963). But the skepticism about mathematics, econometrics, and regression analysis harmed the standing of the Austrian school in the eyes of other economists.

The Next Half Century Belongs to . . .

As we enter a new millennium, where do we go from here? Management guru Peter Drucker has correctly predicted that the "next economics" must emphasize "microeconomics" and in particular productivity and capital formation. "Capital is the future," he declares.[4] In my judgment, the Austrian school is ideally suited to play this

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role. With its concentration on entrepreneurship, capital theory, and subjectivism—the foundations of microeconomics—Austrian economics has a bright future and may even eclipse the Chicago school, especially if the Chicago school (as embodied in the New Classical and Rational Expectations theories) focuses too heavily on tedious mathematical modeling.

Recently Austrian economists have engaged in applied science and case studies, applying their theories to organizational behavior, marketing, finance, trade, and government policies. Granted, statistical analysis has its limitations, as Hayek pointed out in his Nobel-Prize lecture, "The Pretence of Knowledge," but that does not validate the radical subjectivist view (of Lachmann and others) that nothing is verifiable.

Examples of Applied Economics by Austrians

Recent examples of quantitative and case studies by economists sympathetic to Austrian economics include the privatization efforts by Madsen Pirie and Eamonn Butler of the Adam Smith Institute, the currency reform measures of economist Steve Hanke, and the empirical work of historian Robert Higgs and economists Richard K. Vedder and Lowell Gallaway.[5] George Selgin and Lawrence White have done extensive historical work on free banking, both in the United States and foreign countries.[6]

I applaud the recent breakthrough empirical work, *Economic Freedom of the World, 1975-1995* (Cato Institute, 1996), by James D. Gwartney, Robert A. Lawson, and Walter E. Block. The authors, representing both major schools of free-market economics, have demonstrated statistically and graphically a strong correlation between economic freedom and the rate of economic growth. Milton Friedman, in the introduction, echoes Mises when he states, "It did not require the construction of an index of economic freedom for it to be widely believed that there is a close relation between economic freedom and the level and rate of economic growth." But Friedman, ever the consummate quantitative economist, contends that a picture is worth a thousand words. "No qualitative verbal description can match the power of that graph," he concludes.[7]

As more and more graduate students with an Austrian bent acquire skills in econometrics, I expect to see advances in applied Austrian business cycle theory. Charles Wainhouse's doctoral dissertation at NYU was the first to test the Austrian business-cycle theory using time series, and others are following in his footsteps.[8]

If Austrians devote most of their energy debating abstractions, I'm afraid they will remain an obscure school preaching only to the choir. As University of Georgia professor Peter G. Klein states, "If Austrians focus on metaeconomics, and try to force mainstreamers to rethink abstract issues of epistemology, we'll go nowhere."[9] □

1. Sherwin Rosen, "Austrian and Neoclassical Economics: Any Gains From Trade?," *Journal of Economic Perspectives* (Fall, 1997), p. 139. See also Leland Yeager's perceptive response, "Austrian Economics, Neoclassicism, and the Market Test," pp. 153–165.

2. *Letters of Ayn Rand*, edited by Michael S. Berliner (Dutton, 1995), p. 326. In these revealing letters, Rand offered to serve as "unofficial editor" for Read's publications, but she was turned down. (p. 335).

3. Robert Bangs, review of "Roofs or Ceilings?," *American Economic Review*, June, 1947, pp. 482-3.

4. Peter Drucker, *Toward the Next Economics and Other Essays* (Harper & Row, 1981), p. 10.

5. Robert Higgs, "Wartime Prosperity? A Reassessment of the U.S. Economy in the 1940s," *The Journal of Economic History* (March 1992), pp. 41–60; Richard K. Vedder and Lowell Gallaway, *Out of Work* (Holmes & Meier, 1993). Also see their article, "The Great Depression of 1946," *Review of Austrian Economics 5:2* (1991), pp. 3–31.

6. See, for example, Lawrence H. White, *Free Banking in Britain* (Cambridge University Press, 1984); George A. Selgin, *The Theory of Free Banking* (Rowman & Littlefield, 1988) and Selgin, *Banking Deregulation and Monetary Order* (Routledge, 1996).

7. Milton Friedman, "Foreword," *Economic Freedom of the World, 1975–1995*, by James D. Gwartney, Robert A. Lawson, and Walter E. Block (Cato Institute, 1996), pp. vii–viii.

8. Charles E. Wainhouse, *Hayek's Theory of the Trade Cycle: The Evidence from the Time Series*, Ph.D. dissertation, New York University, 1984. See also William A. Butos, "The Recession and Austrian Business Cycle Theory: An Empirical Perspective," *Critical Review* 7:2–3 (1993), pp. 277–306, and Mark Skousen, *The Structure of Production* (New York University Press, 1990).

9. Interview in *Austrian Economics Newsletter* (Mises Institute, Winter, 1995), p. 7.

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BOOKS

No More Wacos: What's Wrong with Federal Law Enforcement and How to Fix It

by David B. Kopel and Paul H. Blackman

Prometheus Books • 1997 • 524 pages • $26.95

Reviewed by Morgan Reynolds

But who is to guard the guards?," wrote the Roman poet Juvenal. No event in modern times better illustrates the wisdom of this question than what happened at Waco, Texas, nearly five years ago.

Mount Carmel is only 90 miles from my door and I used the map printed in the book (along with seven photos) to find my way up to the site. It's a painful place. Perhaps most poignant was the statement on the display near the entrance: "Even Santa Ana didn't kill the women and children." Not since the Wounded Knee massacre in 1890 have so many Americans died in a conflict with the federal government.

The federal raid, 51-day standoff, and fiery immolation of David Koresh and his Branch Davidians—including 27 children—brought the crisis of federal legitimacy to the fore. I wrote a dust-jacket blurb for this book, "absorbing, amazing, appalling," and it holds up. Balanced, thorough, and supremely factual (nearly 1,700 footnotes), *No More Wacos* minces no words in its indictment of the lawlessness of federal law enforcement.

The book is not the final word on Waco because "documents, videotapes, and other evidence have been withheld from the public" and the full truth cannot be known until "witnesses who have lied under oath . . . tell the truth." We may have quite a long wait.

Many questions remain unanswered—who fired the first shot on February 28, 1993 (the brunt of the evidence points to BATF), who or what started the near-simultaneous three fires on April 19 (the weight of the evidence points to Koresh), and who shot 18 Branch Davidians, including Koresh? Since the Justice Department refuses to act, the authors urge appointment of a special prosecutor to expose the full truth and prosecute any violent crimes perpetrated by deadly bullies acting under color of law.

The book is filled with surprising facts. For example, the Davidians were reluctant to leave because they were only three and one-half weeks short of the five-year occupancy necessary for clear title to the land. The Alabama National Guard was deployed for aerial photography in Texas, a breach of the U.S. Constitution and both Texas and Alabama law.

What is to be done? The most fundamental answer is to defederalize criminal law and demilitarize law enforcement. Yet the return of federal jurisdiction over criminal law to its constitutional boundaries is improbable, so the authors supply dozens of sound recommendations and a model federal law enforcement reform statute (Appendix A). Reforms include constitutional sensitivity training for law enforcement agents, civil remedies for victims of law enforcement abuse, a law enforcement review commission, abolishing the Joint Task Forces (JTF) in domestic law enforcement, and many others.

The book has very few shortcomings. Since it provides a detailed critique of the botched arrest warrant, it should have been included as an appendix. Also, a few of the policy reforms I find misguided. For example, a prosecutor's failure to reveal exculpatory material to the defense (a so-called Brady violation) should not automatically void a conviction—why free a guilty felon to prey on society again because the prosecutor broke the rules? Instead, allow for a new trial and discipline or convict the prosecutor.

A major reason for the tragedy was that many Americans approved of the law-enforcement actions in Waco on the grounds that the scurrilous David Koresh, if not all the "cultists," had it coming. Respect for freedom of religion, nontraditional and practiced peacefully, runs shallow in America.

It will be a long, hard road to restore law enforcement, especially at the federal level, to full lawful control. This book provides a superb start.

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Finally, consider a chilling thought, one of many raised in the book. The government's prosecution against Randy Weaver in the Ruby Ridge assault began during the Waco siege and Weaver won a speedy acquittal without calling a single witness. The government's case was pathetic. Did this encourage the FBI to end the Waco standoff early, regardless of the costs to the Davidians, since those deaths might prevent a Texas trial as embarrassing as the Idaho case? This may sound far-fetched but putting such speculation to rest requires a full public accounting. Maybe it's too important to ever happen: the federal government badly wanted to bring its entire weight down on David Koresh's head, if only to wipe the smirks from the faces of those who were enjoying a grand display of impotency and ineptitude by our "awesome, omnipotent" federal government. □

Morgan Reynolds is director of the Criminal Justice Center at the Dallas-based National Center for Policy Analysis, and professor of economics at Texas A&M University.

Take the Rich Off Welfare

by Mark Zepezauer and Arthur Naiman

Odonian Press • 1996 • 191 pages • $9.00

Reviewed by Aaron Steelman

Corporate welfare has become a favorite target of political activists across the ideological spectrum. Free-market groups such as the Competitive Enterprise Institute, Citizens for a Sound Economy, and Americans for Tax Reform have joined forces with Public Citizen, Friends of the Earth, and other left-leaning organizations to form what they call the Stop Corporate Welfare coalition. The group's goal is to eliminate a dozen programs it deems blatant examples of corporate welfare. Among the targets are the Overseas Private Investment Corporation, the Rural Utilities Service, and clean coal technology programs.

In their book *Take the Rich Off Welfare,* Mark Zepezauer and Arthur Naiman argue that such a list only scratches the surface of what should be cut. They maintain that there is $448 billion in corporate welfare in the current federal budget—a figure that exceeds, by a factor of 40, the total cost of the programs targeted by Stop Corporate Welfare.

How do Zepezauer and Naiman come up with such a figure? In two ways: by going after business subsidies aggressively and by labeling many things corporate welfare that really aren't.

Zepezauer and Naiman pull no punches when proposing programs for the chopping block. They argue that the Department of Agriculture fleeces the American public for more than $18 billion annually through price supports, production quotas, market quotas, import restrictions, and deficiency payments. The "king of corporate welfare"—Archer Daniels Midland—attracts, justifiably, a great deal of scorn. The authors dispel the myth that ethanol, which ADM produces and the federal government subsidizes, is somehow economically efficient or environmentally friendly.

They also attack subsidies for the nuclear power and aviation industries. Regarding the latter, Zepezauer and Naiman write, "If there's an argument for governmental subsidies, it's that they help 'infant industries' get on their feet. Commercial aviation is hardly an infant industry anymore, yet the government still pays for the air traffic control system, hands out grants for airport construction and provides reports from the National Weather Service." In addition, the authors decry the Commerce Department's lobbying for foreign purchases of American-built aircraft.

But Zepezauer and Naiman contend that those things are mere drops in the bucket compared with the amount of money the Pentagon doles out to defense contractors each year. The authors persuasively argue that our current military budget does not conform to our real security needs in the post-Cold War world. They maintain, as do Lawrence Korb of the Brookings Institution and Earl Ravenal of the Cato Institute, that a defense budget of $155 billion would be more than adequate. Enacting such a change would produce a savings of nearly $100 billion.

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Far less persuasive than their discussion of subsidies is their treatment of tax breaks and loopholes. Such breaks, they argue, are on an equal footing with direct subsidies and handouts. Consequently, they call for the termination of tax breaks for homeowners, bondholders, and businesses. They also argue that the capital gains tax should be raised sharply.

There is an argument for ending many tax loopholes. They distort economic activity and result in some citizens being taxed at a higher rate than others. But the solution is not to simply close the loopholes while leaving the rest of the tax code in place. That would produce a net tax increase for millions of Americans.

In contrast, a low flat-rate income tax would reduce corporate loopholes and lower tax rates for everyone at the same time. Letting people keep more of what they earn isn't corporate welfare, as Zepezauer and Naiman claim, but passing those earnings on to wealthy businesses certainly is.

Concluding their discussion, the authors offer a strategy for reducing corporate welfare in the budget. Their principal suggestion is campaign finance reform. They argue that stricter spending limits coupled with public financing and free television time would solve much of the problem. "As long as politicians need a lot of money to get elected," Zepezauer and Naiman contend, "they'll be in the pockets of the people who get them elected"—corporate lobbyists.

That proposal is wrongheaded in numerous ways. For one, it would not increase competition in the electoral process; it would stifle it. Spending limits severely cripple the electoral chances of all challengers, but particularly those with views outside the mainstream. More important, such limits are unconstitutional because they restrict political speech.

Take the Rich Off Welfare addresses an important topic. Unfortunately, its analysis is severely flawed. The benefits reaped from its sound policy prescriptions would be greatly outweighed by the harm caused by its ill-conceived ones. □

Aaron Steelman is staff writer at the Cato Institute.

Hamilton's Blessing

by John Steele Gordon

Walker and Company • 1997 • 214 pages • $21.00

Reviewed by Richard H. Timberlake

Hamilton's Blessing, by historian John Steele Gordon, begins by declaring that "The United States, was born in debt." And the last sentence in Gordon's conclusion states: "So while it will be a bruising political battle [to stop the government's debt-creating fiscal folly], it is one we must fight, not only for our own sake, but even more for the sake of our children." In between, Gordon describes the growth of the federal government's debt in six chapters, plus the aforementioned conclusion. The six chapter titles imply the arguments that Gordon develops: "The Hamilton Miracle," "Andrew Jackson Redeems the Debt," "Armageddon [the Civil War] and the National Debt," "The Twilight of the Old Consensus [of a balanced federal budget]," "Keynesianism and the Madison Effect [Men Love Power]," and "The Debt Explodes."

Gordon notes that as early as 1781, at the age of 26, Hamilton had observed in a letter to Robert Morris ("the financier of the Revolution") that "A national debt, if it is not excessive, will be to us a national blessing. . . . It will . . . create a necessity for keeping up taxation to a degree which, without being oppressive, will be a spur to industry."

Hamilton's attempt at fiscal sophistry, although it provided an attractive title for a book written more than 200 years later, is fundamental economic fallacy. The notion that *any* taxation, whether oppressive or not, is or could be a "spur to industry" is palpably absurd. To use public debt to encourage such taxation is error compounded. Every tax takes a share of some product's value without contributing any realized resources to its development. Therefore, every tax is an immediately identifiable burden on production whether the tax is "justified" by some alleged services from government institutions or not.

The immature Hamilton may have been thinking of import taxes (tariffs) that would

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have given home industry a competitive advantage in foreign trade. But that famous popular belief was as wrong in Hamilton's time as it is today. Adam Smith, whom Hamilton often cited, knew and preached against the fallacy of protectionism. *All* impediments to trade—taxes, tariffs, quotas, and the like—sap income, destroy incentives, and are counterproductive. Hamilton's nationalism and penchant for a relatively powerful federal government, a trait that Gordon and many others have emphasized, may have contributed to this elementary error.

Opening the Pandora's Box that supposes debt to be a blessing was Hamilton's original folly. Gordon's attempt to give this notion legitimacy, even if his purpose is to show that it has gone too far, is full of factual historical error. He attempts to trace the development of the federal government's debt from pre-Revolution times to the present to show how the national debt has become an ungovernable monster about to devour all of the annual federal budget. The trouble is that he has not done his homework.

I cannot, in the limited space of a review, catalogue the catenae of historical misdemeanors that Gordon commits. His analysis of recessions, Civil War financing, and, especially, the Great Contraction and Depression of 1929-42 are so flawed that it would take another book to correct his errors.

A public debt is not so much a blessing or a curse as it is an index of the kind of government we have with us. The nineteenth-century U.S. polity included many government-limiting institutions: an operational gold standard; a Supreme Court that understood and supported the U.S. Constitution—until its shameful capitulation on the legal tender cases in 1871 and 1884; a fundamental political understanding that the budget would be *overbalanced* every year in order to pay off the debt that had arisen from wartime emergencies; the Jeffersonian principle in foreign policy of no "entanglements" but free and open trade with all; and a general belief that welfare is the province of private charities and churches that are close to the venues of the needy rather than the province of government.

Reducing the national debt is not the first order of business, even though the debt is and will be a burden on our children. For the ballooning debt is only an outward and visible sign of an inward and spiritual disgrace. It starts with the idea that the state works for us, that it can do good things for us at no cost (such as Social Security programs and job creation) that it provides services that private individuals cannot provide for themselves. If the state in doing all these good things goes into debt—well, we just have to endure it. In short, it is statism and not the debt as such that is the problem.

If *Hamilton's Blessing* had even the beginnings of an answer to the momentous problem of statism, its historical shortcomings could be forgiven. With an antidote for statism, the significance of the national debt, whether curse or blessing, would shrivel into nothing. As it is, the book is completely misleading as financial history, and never recognizes the fact that the debt is only a symptom and not the primary disease facing U.S. policy makers today. □

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The Collected Works of F.A. Hayek Volume 10—Socialism and War

edited by Bruce Caldwell

University of Chicago Press • 1997 • 270 pages • $36.00

Reviewed by George C. Leef

In this, the tenth volume in the planned 19-volume set of Hayek's complete works, we are given an assortment of essays and reviews, most dating from the interwar years when Hayek was in London, dealing with the topics of socialism and war. In choosing to juxtapose these two subjects, the editor, Professor Bruce Caldwell of the University of North Carolina, Greensboro, not only combines issues that were very much on Hayek's mind during this period of his life, but also

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reminds us that, as Hayek and many others have argued, socialism is anything but a path to peace. The coercion it necessarily entails leads to conflict and even warfare. That truth can never be stated too often.

For readers unfamiliar with F.A. Hayek's contributions to the pro-market, anti-socialist literature, it should be briefly noted that he was a student of Ludwig von Mises and established early on a reputation as a powerful opponent of central economic planning. He was invited to teach at the London School of Economics in 1931 and throughout the Depression and war years was one of the few opponents of socialism among Western intellectuals. His great 1944 book, *The Road to Serfdom*, clearly and patiently explained why socialism must lead to the gradual loss of all freedom. For his many contributions in economics, he received the Nobel Prize in 1974. He died in 1992.

One of the great battles Hayek fought during these years was over the feasibility of "market socialism." Mises had essayed a devastating critique of socialism in his 1922 book *Socialism*, centering around his argument that socialist planning authorities could never make optimal use of resources because socialism lacks a price system to guide decision-makers. That attack touched off a furious debate, with both Mises and Hayek countering the contention that some "middle way," namely market socialism, was possible and desirable.

The first part of *Socialism and War* is devoted to Hayek's contributions to and commentaries upon the "calculation debate." In his introduction, Professor Caldwell does an excellent job of setting forth the historical context of the debate. He also provides an answer to the obvious question, "Is this still of any relevance?" He observes that there are still academics among us who argue that there are varieties of socialism that have yet to be tried. The collapse of the Soviet Union and the mounting evidence of just how pathetic its economic performance was have done little to eradicate the hardy delusion that coercive interference in the peaceful operation of the market can ever improve human welfare.

The arguments for "different" kinds of socialism are mere variations on a fundamentally discordant theme. As we continue to confront socialists' claims that they have finally hit upon the variation that can't fail, we will find a wealth of insights and arguments in these writings of Hayek.

Apropos of the allure of socialism, the book includes one of Hayek's masterpieces, the essay "The Intellectuals and Socialism." The left, he writes, "have always directed their main effort towards gaining the support of [the intellectual] elite, while the more conservative groups have acted, as regularly but unsuccessfully, on a more naïve view of mass democracy and have usually vainly tried directly to reach and persuade the individual voter." This is a point we must contemplate. Despite the "Reagan Revolution" and the ouster of the Democratic Party from control of Congress, can anyone confidently say that there has been much of a change in the attitudes of the people toward the state? In pushing for an increase in the minimum wage in 1996, the backers of this irrational and immoral measure pointed to opinion polls showing that roughly 75 percent of Americans were in favor of it. Would the numbers have been any worse 50 years ago?

Just as he did in the "calculation debate," here Hayek plumbed the essence of the problem. Although the common man may disdain intellectuals, his thinking is largely their thinking, filtered through various media that are themselves generally sympathetic to interventionism. As long as interventionists dominate the channels through which ideas are produced and disseminated, the nation will continue to drift in their direction.

Bruce Caldwell has done a splendid job of editing and the University of Chicago Press has published a lovely volume. The set of Hayek's works will be useful to students of intellectual history and to opponents of government's economic meddling for years to come. □

George Leef is book review editor of The Freeman *and coordinates FEE's Freeman Society discussion clubs.*

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The Sovereign Individual (How to Survive and Thrive During the Collapse of the Welfare State)

by James Dale Davidson and Lord William Rees-Mogg

Simon & Schuster • 1997 • 398 pages • $25.00

Reviewed by Greg Kaza

The plotline sounds like a science fiction novel. Early in the 21st century, the cybereconomy produced by the Information Age liberates sovereign individuals as economic transactions occur outside government regulatory confines via such means as computer-generated electronic money (e-cash). This thesis is not the work of Robert Heinlein. Rather, it is the prediction advanced by James Dale Davidson and Lord William Rees-Mogg in this, their third coauthored book.

But Davidson, founder and chairman of the National Taxpayers Union, and Rees-Mogg, a financial adviser, have not written a fanciful book. Much of the computer technology described in their work, while unfamiliar to the general public, is familiar to futurists, savvy entrepreneurs, and the readers of *Wired* magazine.

Here is one particularly telling description of the new cybereconomy foreseen by Davidson and Rees-Mogg:

> Not only will transactions occur over the [Inter]Net, but they will migrate outside the jurisdiction of nation-states. . . . Payment will be rendered in cybercurrency. Profits will be booked in cyberbanks. Investments will be made in cyberbrokerages. . . . Low-orbit satellites and other approaches to wireless technology will transmit feeds back and forth directly to a beeper in your pocket, a portable computer, or a workstation, without interfacing with a local telephone operating or TV cable system at all. In short, the Internet will be unwired. . . . Your PC will be the branch office of your bank and global money brokerage, as well as the equivalent of the Paris kiosk where you buy your anonymous phone card.

The cybereconomy will also have implications for the media and culture as the "mass media [becomes] the individualized media." Consumers will be able to choose their own customized news programs rather than relying on broadcast pundits.

Their analysis is sobering in its implications for the welfare-warfare state and its economic and political superstructures. One effect of the cybereconomy will be to reduce the necessity of hiring large numbers of middle managers to monitor production processes. Employment will become temporary and situational as virtual corporations that assemble talents for specific purposes will become more efficient than longstanding companies. Sooner or later, services and products provided by large bureaucratic agencies and corporations will devolve into highly competitive markets, managed not from a "headquarters" but through a distributed, decentralized network.

The political implications of these developments are sweeping. Consider the authors' prediction that "the nation-state is obsolete, leading to wide-spread secession movements in many parts of the globe." The transition this development implies will involve a crisis, particularly in wealthy countries like the United States where the "national economy" brought high income to unskilled work in the twentieth century. The authors foresee intense and even violent nationalistic reactions centered among those who lose status, income, and power when what they consider to be their "ordinary life" is disrupted by the new cybereconomy. Davidson and Rees-Mogg believe the "nation-state will ultimately collapse in fiscal crisis." Will Americans adapt if they are downsized out of a middle-class standard of living? Or will they turn to nationalist politicians who promise to protect them from the cybereconomy?

These questions increasingly occupy policy elites.

One of the best sections of *The Sovereign Individual* describes how the new cybereconomy will make it more difficult for government central banks to inflate and play funny-money games with monetary policy. What Davidson and Rees-Mogg's book describes is a cyberlibertarianism.

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Free-marketeers who accept the Davidson–Rees-Mogg thesis would do well to ponder this passage from Stephen J. Kobrin's article in the Summer 1997 issue of *Foreign Policy*: "Without severe restrictions of individual privacy—which are not out of the question—governments will be hard-pressed to track, account for and control the flows of money across borders." Computer technology can be liberating for individuals. Or it can serve the authoritarian state.

A truly provocative book! □

Greg Kaza is a Michigan state representative.

One World, Ready or Not:
The Manic Logic of Global Capitalism
by William Greider
Simon & Schuster • 1997 • 528 pages • $27.50

Reviewed by Stanley Kober

The American economy is booming. Unemployment and inflation are low. Exports are soaring, and the budget deficit is shrinking as revenues exceed everyone's expectations.

But William Greider isn't happy. The real story, he insists, is not the good news, but a disaster looming ahead. "Our wondrous machine," he warns, "appears to be running out of control toward some sort of abyss." The reason is that we are becoming too productive, and productivity, by his reasoning, impoverishes workers. The growth of international trade only aggravates this problem. "In the global economy," he argues, "wage arbitrage . . . moves the production and jobs from a high-wage labor market to another where the labor is much cheaper." Thus, globalization is especially bad for the American worker.

With the collapse of communism, one would have thought this sort of Marxist critique of capitalism would have been discredited, but it appears we have to return to the basics. Greider's book displays a profound misunderstanding of both economics and capitalism. First, contrary to his assumption, economics is based on the assumption that our wants are infinite while our resources are finite. That is why we have to *economize*. This realization is implicit in his ancient Greek definition of "economy": "The management of the household and husbandry of its valuable assets." You husband your valuable (i.e., limited) assets only if you know you can't spend them on everything you want. The purpose of markets—which Greider seems to regard as almost a perversion of economics—is to establish the relative scarcity of things people want to buy and sell, thereby directing capital to those things that are relatively more scarce so that they will become more abundant. Capitalism is simply financial intermediation, that is, the procedure and mechanisms by which those with money to invest direct it, typically through intermediaries (banks, stock exchanges), to those who want the money for productive purposes.

Once we understand these concepts, we can understand where Greider goes astray. To be sure, the outcome of investment is increased productivity (assuming it is successful!), which means that fewer people will be needed to produce a given level of output. Assuming additional demand is not created, that would indeed mean downward pressure on wages. But experience demonstrates that increased productivity leads to higher wages. There are two reasons for this. The first is that the increased income from higher productivity typically flows also to the worker. Indeed, higher productivity is the way incomes grow in a noninflationary way.

More importantly, however, the same inventiveness that increases productivity also creates new products. That is why the vastly increased productivity in agriculture has not resulted in a small class of successful farmers in an ocean of impoverished ex-farmers. The people who 200 years ago would have been relatively unproductive farmers (at least by modern standards) are now free to produce automobiles, airplanes, and computers. And this process will continue because human imagination is infinite; there is no limit to scientific discovery.

The benefits for the U.S. economy have been profound. "Technology and electronics are now the largest industrial employers in the

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U.S.," reports *Worth* magazine (July 1997), and—contrary to Greider's sources—they are very profitable. "High-tech profits expanded 25 percent in 1996 and are expected to grow 35 percent in 1997." The significance of this transformation is now recognized by our leading competitors. "The majority of [U.S.] jobs are created in the technologies of the future," Edith Cresson, the European Union commissioner for research and development issues, recently acknowledged. "We have a large gap to fill vis a vis the U.S."

Similarly, Greider's attack on greedy capitalists is misplaced. The purpose of financial intermediation is simply to provide a mechanism for bringing together those who need capital with those who have it, thereby promoting economic efficiency. It is not to solve all the problems of society. Similarly, it does not mean that those involved in this process will be absolved of some of humanity's worst qualities, such as a greed that will lead them to cut corners.

Greider recounts tragic stories of workers burned in fires because of employer negligence and indifference, but these kinds of tragedies are not unique to capitalist societies. Environmental degradation was far worse in the communist Soviet Union than in the capitalist United States, and no amount of worker tragedies in capitalist societies can compare to the 30 million dead of Mao's Great Leap Forward or the genocide of Pol Pot's attempt to create communism in Cambodia. The answer to these problems lies in the recognition of Lord Acton's famous dictum that "power tends to corrupt, and absolute power corrupts absolutely." That is one reason it is better to have individuals rather than governments make investment decisions: the concentration of power in the latter case makes the sort of tragedies Greider condemns more, not less, likely.

Markets and democracy naturally go together, because they both are based on a dispersion of power, but they are not the same thing and they should not be confused. Greider's evident inability to recognize this difference underlines the inadequacies of this very long book. □

Stanley Kober is a research fellow in foreign policy studies at the Cato Institute.

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"The principle that the end justifies the means is in individualist ethics regarded as the denial of all morals. In collectivist ethics it becomes necessarily the supreme rule; there is literally nothing which the consistent collectivist must not be prepared to do if it serves 'the good of the whole,' because the 'good of the whole' is to him the only criterion of what ought to be done."

—F.A. HAYEK (1899–1992), *The Road to Serfdom*

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